



**NOMURA**

# **NOMURA BANK INTERNATIONAL PLC**

**ANNUAL REPORT**  
**31 March 2019**

**COMPANY REGISTRATION NUMBER 1981122**

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## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2019

### STRATEGIC REPORT

The Directors of Nomura Bank International plc (the “Bank”) present their Strategic Report, Directors’ Report and the Financial Statements of the Bank for the year ended 31 March 2019. The Bank is incorporated in England and Wales and its registered office is at 1 Angel Lane, London, EC4R 3AB.

### REVIEW OF THE BANK’S BUSINESS, FINANCIAL PERFORMANCE AND FINANCIAL POSITION, AND DESCRIPTION OF PRINCIPAL RISKS

#### Principal Activities

The Bank’s primary role is to support the Global Wholesale Business, predominantly the Global Markets Division, of the Nomura Group (Nomura Holdings, Inc. (“NHI”) and its consolidated subsidiaries).

The Bank is a wholly owned subsidiary of Nomura Europe Holdings plc (“NEHS”). The Bank’s ultimate parent undertaking and controlling entity is NHI. The Bank has a liaison office in Istanbul, Turkey. The Bank’s core activities include:

- issuance of rates, credit and equity linked notes and certificates;
- provision of sub-participations and structured loans;
- purchase of structured credit assets and structured loans;
- provision of traditional banking products such as loans and credit facilities, repurchase and reverse repurchase transactions, letters of credit and guarantees; and
- taking deposits (including foreign exchange and other reference linked deposits).

From an operational standpoint, the Bank outsources a significant proportion of its support services under service level agreements to the related departments of Nomura International Plc (“NIP”). The Treasury department continues to manage the liquidity of the Bank and provides asset and liability management for the balance sheet.

The Bank’s key financial indicators during the year were as follows:

	<u>Year ended</u> <u>31 March 2019</u>	<u>Year ended</u> <u>31 March 2018</u>
	\$’000	\$’000
Net interest income	59,478	65,062
Profit after tax	15,191	16,131
Total comprehensive gain	51,407	7,580
Total assets	6,638,475	7,844,926
Total liabilities	6,403,270	7,362,186
Shareholders’ funds	235,205	482,740

#### **Financial Performance:**

The Bank reported profit after tax for the year of \$15,191,000 (2018: \$16,131,000), driven mainly by facilitation fee income for issuance facilities provided to NIP.

#### **Financial Position:**

The Bank’s total assets decreased year on year by 15% to \$6,638,474,527 (2018: 7,844,926,051) following the maturities of certain secured financing transactions during the year. During the year, the Bank repatriated \$300,000,000 of share capital to the Bank’s immediate parent, NEHS to ensure efficient capital usage within the Nomura Group.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **STRATEGIC REPORT (CONTINUED)**

#### **RISK MANAGEMENT**

The Bank's risk management framework is closely aligned to the Nomura Group's risk management framework. However through its local governance framework, the Bank does apply specific risk management controls and defines its risk appetite, which is the maximum level and types of risk that the Bank is willing to assume in pursuit of its strategic objectives and business plan.

The Bank's activities involve the assumption and transfer of certain risks, including market risk, credit risk, operational risk, cross-border risk, model risk, liquidity and funding risks, and business risk. These risks are managed through sub-committees of the Board of NEHS, which include:

- the Prudential Risk Committee ("PRC"), which has oversight over the NEHS Group's risk profile, financial risk appetite, future risk strategy and maintenance of an appropriate risk control framework.
- cross-border risk committees in relation to non-Europe, Middle East and Africa ("non-EMEA") business booked into the Bank.

Further information on the management of these risks is provided in note 18 of the Financial Statements.

#### **FUTURE DEVELOPMENTS**

As a result of the national Brexit referendum, which took place on 23 June 2016, the UK is due to leave the EU. Under the current agreement between the UK and the EU in accordance with the Article 50(3) of the Treaty on the European Union, Brexit is required to occur before the end of October 2019. However, the timing of Brexit, along with its final form and substance, remains uncertain at this time.

The Bank conducts a substantial level of business throughout Europe with London as its regional hub. The Bank has access to the entire European Economic Area ("EEA") through providing cross-border services under the relevant EU single market legislation known as "passporting rights". If Brexit were to occur without any agreement between the UK and the EU in respect of continuation of access for financial services, the Bank may lose access to the EEA, adversely affecting the both the Bank's and the Group's revenue and profitability from business in the European region.

In response to the impacts of Brexit on both the Nomura Group and the Bank and to provide continued services to clients both regionally and globally, a new broker-dealer entity, Nomura Financial Products Europe GmbH in the Federal Republic of Germany was established. NFPE is a subsidiary of NEHS and is eligible for passporting rights after Brexit, if it occurs.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **STRATEGIC REPORT (CONTINUED)**

#### **REGULATION AND REGULATORY CHANGES**

##### **Regulations**

The Bank is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the Financial Conduct Authority (“FCA”) and the PRA. The Bank is regulated and has minimum capital adequacy requirements imposed on it on a standalone basis by the PRA. The Bank is in compliance with these requirements.

##### **European Financial Regulation Reform**

On 23 November 2016, the European Commission published a comprehensive package of reforms to further strengthen the resilience of EU banking sector. The reforms implement many of the remaining parts of Basel III in the EU, as well as addressing issues identified with current prudential requirements. The European Commission introduced amendments to existing legislation in the form of the Capital Requirements Directive (“CRD V”), Capital Requirements Regulation (“CRR II”), Bank Recovery and Resolution Directive (“BRRD II”) and Single Resolution Mechanism Regulation (“SRMR”).

The proposals have been introduced in the EU from June 2019 with the majority of changes becoming effective two years later in June 2021. However, given the pending decisions in respect of Brexit, there remains some uncertainty as to which regulations may apply to the Bank post 2019. Irrespective of these uncertainties, the Bank will be in a position to comply with its regulatory requirements.

##### **IBOR Reform**

On 27 July 2017, the FCA announced it would no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Participants in the major global financial markets are discussing the development of alternatives to IBORs (“Interbank Offered Rates”) and how to transfer existing contracts and products to the alternative rates. The Nomura Group has established an IBOR program to manage the transition.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **STRATEGIC REPORT (CONTINUED)**

#### **EMPLOYEE MATTERS**

The Bank outsources all of its support services under service level agreements to departments of NIP, an affiliated company.

The Bank is committed to the principle of equal employment opportunity for all employees and to providing employees with a work environment free of discrimination and harassment regardless of age, disability, race, gender identity and gender expression, religion or belief, marriage and civil partnership, pregnancy and maternity, sex or sexual orientation. Our recruitment, development and promotion procedures are based on the requirements of a particular position. The Bank's objective is to attract job applications from the best possible candidates and to retain the best people. We are also committed to having a diverse range of skills, values, knowledge, experience and geographical, educational and professional backgrounds amongst our employees.

The Nomura Group has an established policy of communicating with all its employees regularly, including U.K. employees, in order to provide information relevant to them about their employment and Nomura. This includes regular Nomura news bulletins circulated to all U.K. employees as well as communication and updates on the employee training programmes that are available. All U.K. employees are encouraged to participate in the various employee committees and networks offered by the Nomura Group. The Nomura Group is not listed in the U.K. and therefore does not operate an employee share scheme. However employee involvement in the performance of the Bank is encouraged in a number of ways, including through the provision of a discretionary bonus scheme, which is based on the employee's individual performance as well as their division as a whole and the overall Bank and Nomura Group performance. The Nomura Group's financial performance is regularly communicated to employees through quarterly town halls in which the financial performance is discussed.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **STRATEGIC REPORT (CONTINUED)**

#### **ENVIRONMENT AND ENERGY**

The Bank believes a healthy environment is the foundation of stable economic and social conditions for future generations. The Bank is committed to acting in an environmentally responsible manner and to achieving energy performance improvement.

The Nomura Group:

- encourages investment and constructive engagement in environmentally friendly and energy efficient goods and services;
- assesses environmental risks and continually strives to minimize pollution to mitigate our effect on climate change;
- complies with relevant environmental laws and regulations and engages with external stakeholders on environmental issues;
- is committed to reducing waste and the use of natural resources in order to minimize the impact of its footprint on the environment;
- is committed to continual improvement in energy performance;
- aims to maximize the efficiency of its property portfolio through effective asset management covering utilization, maintenance, accessibility and disposals;
- promotes the importance of biodiversity and a healthy ecosystem;
- communicates this policy to all its employees to raise awareness of environmental issues and encourages environmentally friendly initiatives;
- will make available the necessary resources to achieve our environmental and energy objectives and targets.

The Nomura Group makes this policy available for public viewing on request.

**BY ORDER OF THE BOARD AT A MEETING HELD ON 18 JULY 2019**

Christopher Barlow  
Company Secretary

19 July 2019

Company Registration Number 1981122

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **DIRECTORS' REPORT**

The Directors present their report and Financial Statements of the Bank which comprises of the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Cash flow and related notes 1-20.

### **RESULTS AND DIVIDENDS**

The results for the year are presented in the Statement of Comprehensive Income. The profit from continuing operations transferred to reserves for the year amounted to \$15,191,498 (2018: \$16,130,718).

The Directors recommend a payment of a final dividend of \$15,000,000 (2018: nil), equivalent of \$0.06 per share.

### **EVENTS SINCE THE BALANCE SHEET DATE**

No events to report post balance sheet date.

### **DONATIONS**

No political donations were made during the year (2018: nil).

### **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Bank's approach to Financial Risk Management is presented in Note 13 of the Financial Statements, with additional analysis on Financial Instruments disclosed in Notes Notes 1, 9, 13 and 14 of the Financial Statements.

### **MATTERS DEALT WITH IN THE STRATEGIC REPORT**

An indication of the likely future developments of the Bank, information pertaining to principal risks, employee matters, environment and energy have been discussed in the Bank's strategic report.

### **DIRECTORS**

The current Directors and those who served during the year are as shown below:

David Godfrey	Non-Executive Director Non-Executive Chairman
Jonathan Lewis	Director and Chief Executive Officer
John Tierney	Director
Lewis O'Donald	Director (resigned on 26 April 2019)
Jonathan Britton	Non-Executive Director
Neeta Atkar	Non-Executive Director

### **DIRECTORS' INDEMNITIES**

As at the date of this report and during the relevant financial year, indemnities are and were in force under which the Bank has agreed to indemnify certain Directors of the Bank, Directors of certain associated Companies to the extent permitted by law and in accordance with the Bank's articles of association, in respect of certain losses and liabilities arising out of, in connection with, the execution of their powers, duties and responsibilities, as Directors of the Bank. In addition, NHI effected a global Directors and Officers liability insurance programme for the benefit of the Nomura Group.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **DIRECTOR'S REPORT (CONTINUED)**

#### **ANTI-BRIBERY AND CORRUPTION POLICY**

The Bank's policy against bribery and corruption requires employees and persons acting for or on behalf of the Bank, to understand and to comply with laws, rules and regulations concerning bribery and corruption and to be neither involved with bribery nor corrupt activities.

The Bank maintains policies and procedures designed to mitigate the risk of the Bank becoming involved in bribery and/or corruption.

#### **BOARD RECRUITMENT POLICY**

The NEHS Governance and Nomination Committee is responsible for having regard to a broad set of technical capabilities and competencies when recruiting members of the Boards of the Bank. The NEHS Governance and Nomination Committee is also responsible for putting in place a policy promoting diversity on the Board.

The Nomura Group is committed to providing equal opportunities throughout its Board appointments including in the recruitment, training and development of Board members. The objective is to attract the best possible candidates and to retain the best people.

#### **BOARD DIVERSITY POLICY**

The Nomura Group is committed to fostering our corporate culture which respects our people's values regardless of their background, such as gender, nationality, ethnic origin, age, sexual orientation or gender identity. Today, Nomura's workforce includes employees of more than 70 different nationalities. This diverse group of personnel is our most important asset, and as such, we strive to offer equal opportunities to all personnel to enable each and every one of them to develop their capabilities and strengths as individuals to the fullest and perform as Nomura professionals.

The NEHS Governance and Nomination Committee has responsibility for leading the process for Board appointments and for identifying and nominating candidates for appointment to the Board. Board appointments will be based on merit and candidates will be considered against objective criteria. The Board currently has a diverse range of ages, geographical provenance, educational and professional backgrounds, skills, knowledge and experience which values input from all directors. The Bank exceeded its target, as adopted on 19 May 2015, to appoint one female to the Board within 12 months and another within 36 months. The NEHS Governance and Nomination Committee will continue to ensure appropriate actions are taken to further broaden the diversity on the Bank's board.



## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **DIRECTOR'S REPORT (CONTINUED)**

#### **GOING CONCERN**

The Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, Note 13 and 16 of the statutory financial statements for the year to 31 March 2019 describes the Bank's objectives, policies and processes for risk management and capital management, as well as its exposures to credit and liquidity risk.

Given that the Bank hedges its market risk, the Directors consider the Bank's capital position to be strong. The Bank does not hedge its own credit risk, however this does not impact its capital. Whilst the Bank has significant exposure to Nomura Group companies, and in particular to NIP, this is minimised through significant collateralisation to minimise the Bank's exposure. The Bank's net exposures with NIP are supported by a limited written guarantee from the Bank's ultimate parent, NHI.

The maturity profile of the Bank's liabilities is typically much longer dated than that of its assets, minimising the risk of the Bank not being able to meet its obligations as they fall due.

The Directors are not aware of any material uncertainties related to events or conditions that cast doubt about the ability of the Bank to continue as a going concern. They have therefore prepared the financial statements on a going concern basis.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 6. Having made enquiries of fellow Directors and of the Bank's Auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Bank's Auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Bank's Auditors are aware of the information.

#### **AUDITORS**

The Auditors, Ernst & Young LLP, have expressed their willingness to continue in office and a resolution re-appointing them as Auditors and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **DIRECTOR'S REPORT (CONTINUED)**

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Directors' Report, the Strategic Report and the Bank financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing those financial statements, the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Bank;
- select suitable accounting policies in accordance with IAS 8 "Accounting policies, Changes in accounting Estimates and Errors" and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the Bank's financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Directors' Report and the Strategic Report in accordance with the Companies Act 2006 and applicable regulations.

#### **BY ORDER OF THE BOARD AT A MEETING HELD ON 18 JULY 2019**

Christopher Barlow  
Company Secretary

19 July 2019

Company Registration Number 1981122

## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2019

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOMURA BANK INTERNATIONAL PLC

#### Opinion

We have audited the financial statements of Nomura Bank International Plc (the "Bank", "NBI") for the year ended 31 March 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the Statement of Cash Flows and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>• Risk of fraud in recognition of revenue in respect of Nomura Bank International plc's Own Credit Adjustment ('OCA')</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall materiality of \$4.7m which represents 2% of Net Assets.</li> </ul>

## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2019

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOMURA BANK INTERNATIONAL PLC (CONTINUED)

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated Audit Committee
<p><b>Risk of fraud in recognition of revenue in respect of NBI's Own Credit Adjustment ('OCA')</b></p> <p>Value of risk \$44.3m (2018:-\$17.6m)</p> <p>There is a risk that management could manipulate profit and loss recognition where recognition is subjective, e.g. judgements involving complex asset valuations. For NBI, this risk is specific to revenue recognition in respect of NBI's OCA, given the market risk flat nature of the legal entity structure. As such, the OCA is identified as the sole component where there could be potential for management override impacting the other comprehensive income.</p> <p>The risk has neither increased or decreased in the current year compared to the previous year.</p>	<p>As general responses to the risks relating to revenue and expense recognition, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We performed journal entry testing for management override of controls, using pre-determined criteria to focus on higher risk journals, and by building unpredictability into our sample</li> <li>• We performed testing of key entity level controls covering governance, risk management; and the general control environment over risk &amp; compliance monitoring, management information and escalation</li> <li>• We reviewed Nomura's OCA valuation policy and considered the appropriateness of the methodology applied to calculating the adjustment, with a focus on the appropriateness of the own credit curve used</li> <li>• We performed substantive procedures to validate the key assumptions used in setting the OCA curve at the year end</li> </ul>	<p>No material issues were identified from the execution of our audit procedures over the risk of fraud in recognition of revenue in respect of Nomura Bank International plc's Own Credit Adjustment.</p> <p>We concluded that in the context of the inherent uncertainties as disclosed in the financial statements, the valuations of the entity's own issued liabilities and the inputs used within the own credit calculation are within a reasonable range of outcomes and as such the revenue arising from movements in the entity's own credit spread for the year ended 31 March 2019 are materially appropriate.</p>

**NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOMURA BANK INTERNATIONAL PLC (CONTINUED)**

Risk	Our response to the risk	Key observations communicated Audit Committee
	<ul style="list-style-type: none"> <li>We substantiated the inputs to the calculation of the OCA which included testing the completeness of the trades that are included in the calculation. This work included gaining an understanding of the movement in own credit spreads that are applied within Nomura's OCA calculation</li> </ul>	

**An overview of the scope of our audit**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment, and other factors, such as recent Internal Audit findings, when assessing the level of work to be performed.

In assessing the risk of material misstatement to the Bank's financial statements, we assess the Bank's geographic structure, headquartered in London, but whereby the Bank has trading activity originated in other locations (the Americas, Japan and Asia excluding Japan). To make sure that we had adequate coverage of significant accounts in the financial statements of the Bank, we selected regions to include in our audit scope, which represent the principal business units within the Bank. Regional components were selected based on their size or risk characteristics.

We performed an audit of the complete financial information for the "full scope" components and audit procedures on selected account balances on the "specific scope" components.

**Changes from the prior year**

Region	Prior year scope	Current year scope
Europe	Full	Full
Asia excluding Japan	Full	Full
Americas	Specific	Specific
Japan	Out of Scope	Out of Scope

There were no changes in regional scoping in the current year compared to prior year.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOMURA BANK INTERNATIONAL PLC (CONTINUED)**

#### **Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### **Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Bank to be \$4.7 million (2018: \$9.7 million), which is 2% (2018: 2%) of Net Assets. Net Assets (Equity) have been selected for the basis of materiality given the nature of NBI's booking model is such that Equity is relatively low in comparison to total assets as the entity acts as a note issuance vehicle where the market risk associated with external note issuance is transferred to Nomura International Plc (an affiliate). We believe that users of financial statements, including regulators and investors in NBI note issuances, would more likely assess the strength of the balance sheet to be of more interest, particularly given the purpose of the entity as described above.

During the course of our audit, we reassessed initial materiality and identified no basis for a change to the original assessment.

#### **Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely \$3.5m (2018: \$7.2m). We have set performance materiality at this percentage due to our expectation of misstatements based on previous audits, likelihood and effects of misstatements, internal control environment and consideration of any changes in circumstances of the Bank.

#### **Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of \$0.2m (2018: \$0.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOMURA BANK INTERNATIONAL PLC (CONTINUED)**

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.



## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOMURA BANK INTERNATIONAL PLC (CONTINUED)**

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank, noting that the Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Bank is subject to the regulatory requirements imposed by the PRA under the Capital Requirements Directive IV ("CRD IV") framework.
- We understood how Nomura Bank International plc is complying with these legal and regulatory frameworks. This include our assessment of the oversight of those charged with governance, the culture of honesty and ethical behaviour and whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity or that otherwise seek to prevent, deter or detect fraud. We specifically considered the risk of management's manipulation of profit and loss recognition, where recognition is judgemental and subjective.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved:
  - As part of our client and engagement acceptance and continuance procedures, we performed due diligence on the Bank's key personnel to identify any adverse media that may be indicative of risk and exposure to non-compliance, including non-compliance with Anti-Money Laundering Legislation
  - Inspection of correspondence with the FCA and PRA
  - Inquiries of management and those charged with governance as to whether the entity is in compliance with applicable laws and regulations, including compliance with the Anti-Money Laundering Legislation
  - Obtaining an understanding of and performing audit procedures to test the design and operating effectiveness of entity-level controls and considering the influence of the control environment.



## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2019**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOMURA BANK INTERNATIONAL PLC (CONTINUED)**

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Other matters we are required to address**

We were appointed by the company on 4 July 2019 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 17 years, covering the years ending 31 March 2003 to 31 March 2019.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

#### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Nicholas Dawes (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
July 2019*

#### **Notes:**

1. The maintenance and integrity of the Nomura Bank International plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## NOMURA BANK INTERNATIONAL PLC

### INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

	<u>Note</u>	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
<b>INCOME</b>			
Interest income calculated using the effective interest method	2	4,578	87,377
Other interest and similar income	2	70,214	-
Interest expense calculated using the effective interest method	2	(2,106)	(22,315)
Other interest and similar expense	2	(13,208)	-
<b>NET INTEREST INCOME</b>		<b>59,478</b>	<b>65,062</b>
Fee and commission income	3	56,555	49,057
Fee and commission expense		(4,365)	(6,057)
Dealing loss	4	(80,440)	(75,320)
<b>TOTAL OPERATING INCOME</b>		<b>31,228</b>	<b>32,742</b>
Administrative expenses	5	(12,174)	(12,902)
Expected credit loss	13	(84)	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>18,970</b>	<b>19,840</b>
Tax charge on profit on ordinary activities	7	(3,779)	(3,709)
<b>PROFIT FOR THE YEAR</b>		<b>15,191</b>	<b>16,131</b>
<b>ATTRIBUTABLE TO:</b>			
<b><u>Equityholders of the parent</u></b>			
Profit for the year from continuing operations		<b>15,191</b>	<b>16,131</b>

All gains and losses in the current year noted above are derived from continuing activities.

The notes on pages 23 to 75 form part of these financial statements.

**NOMURA BANK INTERNATIONAL PLC**

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019**

	<u>Note</u>	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
<b>PROFIT FOR THE YEAR</b>		15,191	16,131
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that will not be reclassified to the income statement</b>			
Foreign currency translation		-	285
<b>Items that will not be reclassified to the income statement</b>			
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk (net of related tax effects)	11	36,216	(8,836)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<u>36,216</u>	<u>(8,551)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>51,407</u>	<u>7,580</u>

The notes on pages 23 to 75 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	<u>Called-up share capital</u> \$'000	<u>Retained earnings</u> \$'000	<u>Other reserve</u> \$'000	<u>Own credit reserve</u> \$'000	<u>Total shareholders ' equity</u> \$'000
<b>As at 1 April 2018</b>	<b>555,000</b>	<b>32,541</b>	-	<b>(104,801)</b>	<b>482,740</b>
Changes on initial application of IFRS 9	-	1,058	-	-	1,058
Capital repaid during the year	(300,000)	-	-	-	(300,000)
Transferred from own credit reserve to retained earnings during the year	-	(2,982)	-	2,982	-
Profit for the year	-	15,191	-	-	15,191
Other comprehensive loss	-	-	-	36,216	36,216
Total comprehensive income	-	15,191	-	36,216	51,407
<b>As at 31 March 2019</b>	<b>255,000</b>	<b>45,808</b>	-	<b>(65,603)</b>	<b>235,205</b>
<b>As at 1 April 2017</b>	<b>555,000</b>	<b>31,857</b>	<b>(285)</b>	<b>(111,412)</b>	<b>475,160</b>
Transferred from own credit reserve to retained earnings during the year	-	(15,447)	-	15,447	-
Profit for the year	-	16,131	-	-	16,131
Other comprehensive loss	-	-	285	(8,836)	(8,551)
Total comprehensive income	-	16,131	285	(8,836)	7,580
<b>As at 31 March 2018</b>	<b>555,000</b>	<b>32,541</b>	-	<b>(104,801)</b>	<b>482,740</b>

During the year \$2,981,972 (2018: \$15,447,000) was transferred from Own Credit reserve to Retained earnings due to derecognition of financial liabilities designated at fair value through profit and loss (net of tax effects).

Other reserve movement in prior year related to the closure of the Bank's Italian branch.

The notes on pages 23 to 75 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2019

	Note	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
<b>Assets</b>			
Loans and advances to banks	9	3,048	6,635
Derivative financial instruments	9	449,130	504,352
Loans and advances to affiliates	9	1,564,136	1,026,173
Securities purchased under agreements to resell	9	4,535,216	6,196,820
Loans and advances to others	9	68,615	80,493
Prepayments and accrued income	9	13,138	9,748
Other assets	9	828	8,376
Financial investments	9	17	-
Available-for-sale financial investments	9	-	12
Deferred tax assets	7	4,347	12,317
<b>Total Assets</b>		<b><u>6,638,475</u></b>	<b><u>7,844,926</u></b>
<b>Liabilities</b>			
Customer accounts	9	184	200
Derivative financial instruments	9	653,887	1,107,756
Accruals and deferred income	9	20,593	25,931
Borrowings from affiliates	9	761,682	246,485
Borrowings from others	9	41,745	43,235
Securities sold under agreements to repurchase	9	599,980	1,450,000
Bonds and medium-term notes	9,11	4,321,854	4,460,415
Group relief payable	7	3,219	27,424
Other liabilities	9	126	740
<b>Total Liabilities</b>		<b><u>6,403,270</u></b>	<b><u>7,362,186</u></b>
<b>Shareholders' funds</b>			
Called up share capital	12	255,000	555,000
Retained earnings		45,808	32,541
Own credit reserve		(65,603)	(104,801)
<b>Total Equity</b>		<b><u>235,205</u></b>	<b><u>482,740</u></b>
<b>Total Liabilities and Equity</b>		<b><u>6,638,475</u></b>	<b><u>7,844,926</u></b>

Approved by the Board of Directors on 18 July 2019 and subsequently signed on its behalf on 19 July 2019 by:

John Tierney  
Director

The notes on pages 23 to 75 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

		<u>Year ended</u> <u>31 March 2019</u>	<u>Year ended</u> <u>31 March 2018</u>
	Note	\$'000	\$'000
<b>Operating activities</b>			
Profit before tax		18,970	19,840
<b>Change in operating assets and liabilities</b>			
Net change in loans and advances to affiliates		(537,962)	489,566
Net change in loans and advances to others		11,878	5,705
Net change in borrowing from others		(1,490)	(3,865)
Net change in borrowings from affiliates		515,197	(149,460)
Net change in bond and medium term notes		48,676	6,929
Net change in financial investments		(17)	-
Net change in available-for-sale financial investments		12	(1)
Net change in derivative assets		55,221	(117,924)
Net change in derivative liabilities		(453,869)	(136,105)
Net change in securities purchased under agreements to resell		1,663,878	(451,389)
Net change in securities sold under agreements to repurchase		(851,236)	-
Net change in other assets		7,548	21,406
Net change in customer accounts		(16)	24
Net change in other liabilities		(614)	892
Net change in prepayments and accrued income		(3,389)	(7,252)
Net change in accruals and deferred income		(5,339)	(5,234)
Net change in income tax receivable and group relief payable		(27,414)	(5)
<b>Net cash flow from/(used in) operating activities</b>		<b>440,034</b>	<b>(326,873)</b>
<b>Financing activities</b>			
Proceeds of borrowings and issuance of debt	11	1,769,503	1,401,363
Repayments of borrowings and redemption of debt	11	(1,913,124)	(1,074,414)
Repayment of share capital	12	(300,000)	-
<b>Net cash flow (used in)/from financing activities</b>		<b>(443,621)</b>	<b>326,949</b>
Net (decrease)/increase in cash and cash equivalents		(3,587)	76
Cash and cash equivalents at the beginning of the year		6,635	6,559
<b>Cash and cash equivalents at the end of the year</b>		<b>3,048</b>	<b>6,635</b>
<b>Included within operational cash flows</b>			
Interest paid		(16,283)	(21,831)
Interest received		71,571	80,124

The cash and cash equivalents mainly consist of nostro balance.  
The notes on pages 23 to 75 form part of these financial statements.

**NOMURA BANK INTERNATIONAL PLC**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)**

**RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES:**

	<u>Liabilities as at</u> <u>31 March</u> <u>2018</u> \$'000	<u>Cash Flow</u> \$'000	<u>Non-cash changes</u>			<u>Liabilities as at</u> <u>31 March</u> <u>2019</u> \$'000
			<u>Acquisition</u> \$'000	<u>Foreign exchange movement</u> \$'000	<u>Fair value changes</u> \$'000	
Bonds and medium-term notes	4,460,415	(143,622)	-	48,676	(43,615)	4,321,854
Total liabilities from financing activities	4,460,415	(143,622)	-	48,676	(43,615)	4,321,854

	<u>Liabilities as at</u> <u>31 March</u> <u>2017</u> \$'000	<u>Cash Flow</u> \$'000	<u>Non-cash changes</u>			<u>Liabilities as at</u> <u>31 March</u> <u>2018</u> \$'000
			<u>Acquisition</u> \$'000	<u>Foreign exchange movement</u> \$'000	<u>Fair value changes</u> \$'000	
Bonds and medium-term notes	4,104,141	326,949	-	6,929	22,396	4,460,415
Total liabilities from financing activities	4,104,141	326,949	-	6,929	22,396	4,460,415

The notes on pages 23 to 75 form part of these financial statements.

## **NOMURA BANK INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019**

#### **1. ACCOUNTING POLICIES**

##### **a) Basis of Accounting**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) including all International Accounting Standards (“IAS”), Standing Interpretations Committee (“SIC”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations as adopted by the European Union.

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies.

The financial statements have been prepared on a going concern basis. The financial statements are presented in United States Dollar (“USD”) and all values are rounded to the nearest thousand USD except where otherwise stated.

##### **b) Significant accounting judgments, estimates and assumptions**

The preparation of the Bank’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

- Where there is no active market for a financial instrument, fair value is determined using valuation techniques which could require judgement, as listed in note 14.
- Recoverability of deferred tax assets, as per note 7.

##### **c) Foreign Currencies**

The Bank’s financial statements are presented in USD which is also the functional currency of the Bank.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Income and expenses denominated in a foreign currency are retranslated using appropriate weighted average exchange rates. All differences arising from the application of closing rates of exchange, together with exchange gains/losses from trading activities, are taken to profit and loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The rate of exchange between the USD and Sterling at the reporting date was 1.3031 (2018: 1.4037).



## **NOMURA BANK INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **d) Operating Income**

###### **(i) Interest receivable**

Interest income is recognised in profit and loss for all interest bearing financial assets held at amortised cost using the effective interest method or secured financing transactions classified as fair value through profit and loss (“FVPL”).

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or a group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

###### **(ii) Interest payable**

Interest expense is recognised in profit and loss for all interest bearing financial liabilities using the effective interest method, except for liabilities held at fair value through profit and loss.

###### **(iii) Dealing profits and losses**

Income arising from gains and losses on financial instruments measured at fair value through profit and loss is included in dealing losses. Interest on certain liabilities designated at fair value through profit and loss is also included, as it is integral to the dealing losses and distinct from interest on banking activities.

Dealing profits arise across a range of instruments, and are managed accordingly. They are presented on a net basis, even though the corresponding financial assets and liabilities may not have been offset.

###### **(iv) Fee income and expense**

Fees and commission income includes fees earned from issuance facilitation services and other commission income.

Revenues are recognised when or as the customer obtains control of the service provided by Nomura which depends on when each of the key distinct substantive promises made by Nomura within the contract with the customer performance obligations are satisfied. Such performance obligations are generally satisfied at a particularly point in time or, if certain criteria are met, over a period of time.

Depending upon whether the Bank is acting as principal or agent in generating fees and Commissions, costs are reported on a gross or net basis respectively.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### e) Financial Instruments

###### (i) Classification and Measurement

###### Policy applicable from 1 April 2018:

Financial instruments are classified either as financial assets or liabilities at amortised cost, financial assets mandatorily at fair value through profit or loss or financial liabilities designated at fair value through profit or loss. The classification and measurement of all financial assets, except equity instruments and derivatives, are assessed based on the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

###### Business Model

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective, how information is reported to management of the Nomura reporting entity, frequency of sales of the financial assets and the complexity or potential differences in underlying business model.

There are three business models under IFRS 9 for financial assets:

- Hold to Collect - Financial assets held with the objective to collect contractual cash flows
- Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets
- Other - Financial assets held with trading intent or that do not meet the "hold to collect" and "hold to collect and sell" qualifying criteria

The Bank manages a portfolio of financial assets through a hold to collect business model where all of the following criteria are met:

- The portfolio is not managed through a held for trading or fair value management business model;
- The portfolio of financial assets is managed to realise cash flows solely through collecting contractual payments over the life of the financial assets rather than managing the overall return on the portfolio by both holding and selling financial assets; and
- Any sales of financial assets are expected to be infrequent or insignificant.

###### Solely Payments of Principal and Interest (SPPI):

To meet the hold to collect business model, the portfolio of financial assets are to be held by the Bank with the strategy of collecting cash flows from the financial assets specified by the contractual terms of the instrument. A financial asset can only be measured at amortised cost where the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

The most significant elements of interest within a basic lending arrangement are that it is consideration for the time value of money and credit risk. Interest may also include a profit margin.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### e) Financial Instruments (continued)

Policy applicable prior to 1 April 2018:

Financial instruments are classified either as financial assets or liabilities at fair value through profit or loss, loans and receivables, financial liabilities at amortized cost, available-for-sale investments or held-to-maturity investments. The Bank determines the classification of its financial assets on initial recognition depending on the purpose for which the financial instruments were acquired and their characteristics. For hybrid instruments, the Bank considers whether a contract contains an embedded derivative when the entity first becomes party to it, and determines the appropriate classification at this time.

##### (ii) Financial instruments at fair value through profit or loss

Policy applicable after 1 April 2018:

Financial instruments at fair value through profit or loss includes financial instruments held for trading, financial assets mandatorily at fair value through profit or loss and financial assets or liabilities designated upon initial recognition as at fair value through profit and loss.

##### (iii) Financial instruments held for trading

Policy applicable both prior to and after 1 April 2018:

Financial instruments are classified as held for trading if they are acquired for the purpose of selling in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These instruments are generally recognised as regular way transactions, on a settlement date basis. Derivatives are also classified as held for trading.

Derivative instruments are used for trading and risk management purposes. All derivatives are recognised initially and subsequently carried at fair value, with derivatives having positive fair values carried as assets and derivatives with negative fair values carried as liabilities on the Statement of Financial Position.

##### (iv) Financial assets mandatorily at fair value through profit and loss

Policy applicable after 1 April 2018:

Financial assets are mandatorily held at fair value through profit and loss where the asset is managed on a fair value basis or if the asset fails the SPPI test. Such assets are generally recognised on settlement date at fair value. From the date the terms are agreed, until the financial asset is funded, the Bank recognises any unrealised fair value changes in the financial asset in the profit and loss. Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### e) Financial Instruments (continued)

##### (v) **Financial liabilities designated at fair value through profit and loss**

The Bank designates non-trading financial liabilities to be measured at fair value through profit and loss through election of the fair value option on initial recognition if measurement of the fair value through profit and loss represents the more relevant measurement basis for the financial liability because of how the financial liability is managed with other financial assets and financial liabilities or because of the purpose or the nature of the financial liability itself, the designation is made where any of the following criteria are met:

- It is part of a larger group of financial assets and financial liabilities which is managed on a fair value basis;
- The election would eliminate or significantly reduce a measurement or recognition inconsistency (i.e. accounting mismatch) that would otherwise arise from measuring financial assets or financial liabilities or recognising gains and losses on them on different bases; or
- It is a structured financial liability which contains one or more embedded derivatives where the economic characteristics and risks of the derivative(s) are not closely related to the host and require bifurcation.

The financial liability is initially measured at fair value and transaction costs are taken directly to profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. realised amounts recognised in other comprehensive income will be reclassified to Retained earnings net of tax within the 'Statement of Changes in Equity'. As the Bank does not hedge changes in own credit arising on financial liabilities designated at fair value, presenting own credit within other comprehensive income does not create or increase an accounting mismatch in the Profit and Loss.

##### (vi) **Financial Instruments at amortised cost**

Policy applicable after 1 April 2018:

Financial assets are recognised at amortised cost when the Bank's business model objective is to collect the contractual cash flows of the assets and where these cash flows are Solely Payments of Principal and Interest on the principal amount outstanding until maturity, such assets are initially recognised on settlement date. The instruments are initially measured at fair value and subsequently measured at amortised cost less Expected Credit Loss (ECL) allowance (See Accounting policy 1h below). Interest is recognised in the Profit and Loss in 'Interest income', using the Effective interest rate method. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the Profit and Loss in 'Net impairment (loss)/reversal on financial assets'.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### e) Financial Instruments (continued)

###### (vi) Financial Instruments at amortised cost (continued)

Policy applicable prior to 1 April 2018:

Financial assets classified as Loans and receivables were initially recognised on settlement date at fair value, including any direct and incremental transaction costs. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Policy applicable both prior to and after 1 April 2018:

Financial liabilities at amortised cost are initially recognised on settlement date. After initial measurement, these instruments are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

###### (vii) Available-for-sale investments

Policy applicable prior to 1 April 2018:

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale and are not in any of the other categories described above. They are recognised and derecognised using settlement date accounting. Amounts are initially recognised at fair value including any direct and incremental transaction costs and subsequently held at fair value.

Where applicable interest determined using the effective interest method and impairment losses are recognised in profit and loss. Gains and losses arising from changes in fair value are taken to other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss is transferred to profit and loss. Any reversal of impairment losses on non-equity available-for-sale investments is taken to profit and loss.

###### Derecognition of financial assets and liabilities

Transfers of financial assets and liabilities are assessed to determine if assets can be derecognised. The Bank derecognises financial assets when significantly all the risks and rewards of the asset are transferred. If significantly all the risks and rewards of the asset are retained, the Bank retains the financial assets on its Statement of Financial Position with an associated liability for the consideration received. If the Bank neither transfers nor retains significantly all the risks and rewards of the transferred asset, but retains control over the asset, it recognises the transferred asset and an associated liability measured on a basis that reflects the rights and obligations retained by the Bank.

The Bank derecognises financial liabilities when the Bank's obligations are discharged or cancelled or when they expire.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### f) Fair Values

The Bank holds a significant portion of financial instruments at fair value, as described below. A description of the Bank's policy with regards to its application of fair value measurements to significant financial instruments is as follows:

##### **Valuation of fair value instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date.

The best evidence of fair value is quoted prices in an active market. Therefore, the fair value of financial instruments, including exchange-traded securities and derivatives is based on quoted market prices on exchanges or other broker/dealer quotations.

Where quoted market prices or broker/dealer quotations are not available, prices for similar instruments or valuation pricing models are considered in the determination of fair value. Valuation pricing models consider contractual terms, position size, underlying asset prices, interest rates, dividend rates, time value, volatility and other statistical measurements for the relevant instruments or for instruments with similar characteristics. These models also incorporate adjustments relating to counterparty and the Bank's own credit risk and market liquidity adjustments.

These adjustments are fundamental components of the fair value calculation process. The valuation technique used maximises the use of market inputs and minimises the use of entity-specific inputs which are unobservable in the market.

Valuation pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognised, and the use of different valuation pricing models or underlying assumptions could produce different financial results. Any changes in the fixed income, equity, foreign exchange and commodity markets can impact the Bank's estimates of fair value in the future, potentially affecting trading and non-trading gains and losses. The Bank's estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base assumptions underlying valuation pricing models.

Fair value is usually determined on an individual financial instrument basis consistent with the unit of account of the financial instrument. However, certain financial instruments managed on a portfolio basis are valued as a portfolio, namely based on the price that would be received to sell a net long position (i.e. a net financial asset) or transfer a net short position (i.e. a net financial liability) consistent with how market participants would price the net risk exposure at the measurement date.

The Bank seeks to minimize market risks by entering into hedging derivatives to economically hedge the exposures of certain fair value option (FVO) elected notes. The Bank applies the "portfolio exception" to measure the fair value of this group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### g) Derecognition

Transfers of financial assets and liabilities are assessed to determine if assets can be derecognised. The Bank derecognises financial assets when significantly all the risks and rewards of the asset are transferred. If significantly all the risks and rewards of the asset are retained, the Bank retains the financial assets on its Statement of Financial Position with an associated liability for the consideration received. If the Bank neither transfers nor retains significantly all the risks and rewards of the transferred asset, but retains control over the asset, it recognises the transferred asset and an associated liability measured on a basis that reflects the rights and obligations retained by the Bank.

The Bank derecognises financial liabilities when the Bank's obligations are discharged or cancelled or when they expire.

##### h) Impairment

Policy applicable from 1 April 2018:

The Bank is required to record an allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts.

The general expected credit loss ("ECL") impairment model is used to measure expected credit losses against the majority of financial instruments held by the Bank which are subject to impairment through the ECL impairment model under IFRS 9.

Expected credit losses represent the difference between the cash flows that the Bank is entitled to receive in accordance with the contractual terms of the financial instrument and the cash flows that the Bank ultimately expects to receive based on the ECL impairment model which reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonably and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In order to determine whether 12 month or lifetime expected credit losses are used, each financial asset and off-balance sheet financial instrument being individually or collectively assessed for impairment is classified at each reporting date into one of the following three stages of credit quality deterioration since the financial asset was initially recognised.

- Stage 1 – Performing financial assets for which there has been no significant deterioration in credit quality since initial recognition;
- Stage 2 – Underperforming financial assets for which there has been a significant deterioration in credit quality since initial recognition but which are not credit-impaired; and
- Stage 3 – Non-performing financial assets for which there has been a significant deterioration in credit quality since initial recognition and which have become credit-impaired.

The Bank did not purchase or originate any credit-impaired assets.

The allowance for expected credit losses recognised against stage 1 financial assets is determined using 12 month expected credit losses. Conversely, the allowance against stage 2 or stage 3 financial assets is based on lifetime expected credit losses.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### h) Impairment (continued)

Lifetime expected credit losses represent expected credit losses that would result from all possible default events over the expected life of the financial asset whereas 12 month expected credit losses are those credit losses expected to occur within 12 months of balance sheet date.

A financial instrument that is not credit-impaired on initial recognition is initially classified into stage 1 and is typically subsequently continuously monitored to determine whether a significant increase in credit risk has occurred, at which point the financial instrument is reclassified to stage 2. A determination of whether a significant increase in credit risk has occurred at each reporting date will primarily be through a comparison of Nomura Group's internal credit rating applied to the financial instrument at acquisition, origination or issuance and the internal credit rating currently assigned to the financial instrument at the reporting date. A financial instrument will be reclassified into stage 2 where the internal credit rating has declined by more than a specific number of notches, in addition there is a rebuttable presumption that the credit risk of a financial instrument has significantly deteriorated since initial recognition when contractual payments of principal or interest are more than 30 days past due. If there is a further deterioration in credit risk such that the financial instrument becomes credit-impaired, the financial instrument is then reclassified into stage 3.

A stage 3 financial asset can only be classified out of stage 3 and into stage 2 or eventually stage 1 when it no longer meets the definition of being credit-impaired, namely when it is no longer probable that the Bank will not be able to collect all principal and interest amounts due in accordance with the original or modified contractual terms of the financial asset.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred since origination or purchase and it is no longer probable that the Bank will be able to collect all principal and interest amounts due in accordance with the contractual terms of the financial asset.

A default is defined as the failure of an obligor to make payments in full and on time of any financial obligations, markedly disadvantageous modification to a contractual term compared with the existing obligation, bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business of an obligor or other similar situations. A small delay in payment would not automatically be considered a default for determination of whether a financial asset has been credit-impaired. In addition, there is a rebuttable presumption that regardless of the above definition, default is deemed to occur and a financial instrument is credit-impaired when the financial instrument is 90 days or more past due.

A financial instrument will continue to be credit-impaired until the obligor cures the reasons for credit-impairment or there has been a sustained observable period of repayment performance on the financial instrument. Determination of what constitutes a sustained period of repayment performance by the obligor depends on the nature of the financial instrument but will typically be for a period of 6 months or more.

Credit-impaired financial instruments individually assessed for impairment are typically written-off when further cash flows are deemed uncollectible and when all commercially reasonable means of recovering outstanding principle and interest balances have been exhausted. Such a determination is based on factors such as the occurrence of significant changes in the obligor's financial position such that the obligor can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay amounts due.

Write-offs are initially recognised against any existing allowance for expected credit losses and can relate to a financial instrument in its entirety or to a portion of it.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### h) Impairment (continued)

Recoveries are recognised through the Profit and Loss in 'Net impairment (loss)/reversal on financial assets' during a reporting period.

For stage 1 and 2 financial assets, interest income is determined by applying the effective interest rate to the gross carrying value. For stage 3 financial assets, interest income is determined by applying the effective interest rate to net carrying amount of the financial asset namely the gross carrying amount less the allowance for expected credit losses.

##### **Measurement of expected credit losses:**

The measurement of expected credit losses through the general ECL impairment model is typically determined within the Bank using a loss rate model depending on the relevant staging of the financial instrument. A loss rate model measures expected credit losses for an individual or portfolio of similar financial instruments through development of loss rates calculated through an estimate of the probability of default ("PD") of the obligor and loss given default ("LGD") which is applied to the expected credit exposure of the obligor at default ("CEAD").

PD inputs are determined by internal Nomura credit rating applied to the financial instrument. PD inputs used by the Bank are sourced from industry data and validated based on Nomura's historical experience.

Nomura Group policy is that forward-looking information is incorporated into the PD inputs by forecasting economic scenarios and adjusting the base case inputs for at least one more optimistic and pessimistic scenario.

LGD inputs are determined by class of financial instrument based on historical experience of loss and recovery rates for similar financial instruments and other relevant industry data. Where appropriate, LGD inputs are adjusted to reflect the impact of collateral and other integral credit enhancements.

For revolving and non-revolving loan commitments, the relevant absolute measure of CEAD represents an estimate of the total amount of the facility which will be drawn by the obligor by the time of default.

Cash flows expected from collateral and other credit enhancements that are integral to contractual terms of the financial instrument and not recognised separately by the Bank are included in the measurement of expected credit losses.

The Bank permits a low credit risk practical expedient to be used for measurement of expected credit losses, namely that expected credit losses for certain Stage 1 financial instruments is determined using a 12 month ECL without formal consideration of whether a significant increase in credit risk has occurred. However, in the event that the financial instrument becomes credit-impaired, the financial instrument is reclassified from Stage 1 to Stage 3 where expected credit losses are determined using lifetime ECL. A similar approach is applied for certain financial instruments where expected credit losses are very low (either because of the nature of the obligor or the collateral provisions of the financial instrument).

Examples of balances to which the Bank applies this approach includes:

- Variation margin on derivative transactions and collateralised agreements accounted for at FVPL
- Cash at Bank and in hand
- Demand deposits and short term investments grade deposits

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### h) Impairment (continued)

For those financial instruments the Bank identifies significant increases in credit risk through monitoring of observable events or indicators of default in relation to these counterparties.

If a financial asset has been the subject of modification which does not lead to its derecognition, significant increase in credit risk is assessed by comparing the risk of default of the financial instrument, based on the modified terms at the reporting date, with the risk of default of the financial instrument at inception, based on the financial instrument's original, unmodified, terms.

Where the modification of contractual cash flows of a financial asset leads to its derecognition and the recognition of a new asset, the date of modification is treated as the date of initial recognition for the new financial asset when determining whether a significant increase in credit risk has occurred for that modified financial asset. In rare circumstances, after modification, the new asset is considered to be credit impaired, in which case it is treated as an asset which was credit-impaired at origination.

Policy applicable prior to April 1 2018:

The Bank assesses at the reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date and that loss event has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the asset's original effective interest rate. The amount of the loss is included in profit and loss. If in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in profit and loss.

For debt securities classified as available-for-sale, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss in that investment previously recognised in profit and loss.

The calculation of the present value of the expected future cash flows of a collateralised financial asset reflects the cash flows that may result from obtaining and selling the underlying collateral.

##### i) Collateral and offsetting

The Bank enters into agreements with counterparties whenever possible and, when appropriate, obtains collateral. The Bank holds collateral in respect of credit-related instruments where this is considered desirable, given the customer's financial position and the overall banking relationship.

The collateral can take the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities. In addition, the Bank receives cash or securities collateral from Nomura group companies in respect of derivative exposure.

Amounts due to / owed by counterparties are only netted if there is a legal right to offset and management intends to settle on a net basis, or to realise an asset and settle the liability simultaneously. At present, no transactions meet these criteria and no amounts due to / owed by counterparties have been netted.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### j) Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted on or before the reporting date.

Deferred tax assets and liabilities are recognised for temporary differences between the carrying amounts in the statement of financial position and the tax base. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the temporary differences are expected to be reversed based on tax rates and laws that have been enacted or substantively enacted at the reporting date.

##### k) Financial guarantees

The Bank issues financial guarantee contracts which require the Bank to reimburse holders of such guarantees for any losses suffered due to a failure by specified debtors to make payments when due as specified by the terms of an underlying debt instrument. Such financial guarantees are initially recognised at fair value. The amount initially recognised includes an adjustment for transaction costs which are directly attributable to the issuance of the guarantee. Subsequently the financial guarantee will be subject to impairment under ECL.

##### l) Retirement Benefits

The Bank is a member of a defined benefit scheme comprising certain U.K. Nomura companies administered by NIP. The defined benefit plan administered by NIP is a plan that shares risks between entities under common control and is run on a basis that does not allow the individual companies participating within the scheme to identify their shares of the underlying assets and liabilities. As a result, the Bank is not required to apply defined benefit accounting and therefore has applied defined contribution accounting to the scheme in accordance with IAS 19 “Employee Benefits”. There is no contractual agreement or stated policy for charging the net defined benefit cost to the Bank.

##### m) Provisions for liabilities and charges and contingent liabilities

A provision is recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. A contingent liability is a possible obligation whose existence will only be confirmed in the future or it is a present obligation (legal or constructive) and either it is not probable that a transfer of economic benefits will be required to settle the obligation or a reliable estimate cannot be made of the amount of the obligation. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine if a provision should be recognised.

##### n) Cash flow statement

The Bank uses the indirect method to produce a cash flow statement in accordance with IAS 7 “Statement of Cash flows”.

## **NOMURA BANK INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **o) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in current liabilities on the statement of financial position.

##### **p) Segment reporting**

For management purposes, the Bank has only one operating and reportable segment involving financing activities. Substantially all of the Bank's gross and net assets and profit before taxation reported in these financial statements has arisen from this segment.

##### **q) Reserves**

The Bank has the following reserve accounts:

- Retained Earnings: Represents the accumulated retained earnings of the Bank.
- Other Reserve: The reserve contains the foreign currency gains and losses arising from the translation of foreign operations.
- Own credit reserve: The reserve contains unrealised own credit adjustments net of tax in relation to financial liabilities designated at fair value through profit and loss.

##### **r) Standards issued but not yet effective**

###### **Accounting developments to be adopted during the following financial year**

At the date of authorisation of these financial statements, the following standards, amendments to standards and interpretations relevant to the Bank's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2019.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### r) Standards issued but not yet effective (continued)

Pronouncement (Issuance date)	Summary of new requirements	Expected adoption date and method of adoption	Effect on these financial statements
IFRS 16 "Leases"  (January 2016)	<ul style="list-style-type: none"> <li>Replaces IAS 17 as the primary guidance for accounting for arrangements which meet the definition of a lease or which contain a lease.</li> <li>Provides a revised definition of a lease.</li> <li>Requires all lessees to recognise a right-of-use asset and corresponding lease liability in the statement of financial position.</li> <li>Lessor accounting largely unchanged from existing guidance.</li> <li>Simplifies the accounting for sale and leaseback transactions.</li> <li>Requires extensive new qualitative and quantitative footnote disclosures on lease arrangements.</li> </ul>	Modified retrospective adoption from 1 April 2019 <sup>(1)</sup>	No impact expected
IAS 12 Amendments "Annual Improvements to IFRS Standards 2015-2017"  (December 2017)	<ul style="list-style-type: none"> <li>Clarifies that entities must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the originating transaction or event that generated the distributable profits giving rise to the dividend originated.</li> </ul>	Modified retrospective adoption from 1 April 2019	No impact expected
IFRIC 23, "Uncertainty over Income Tax Treatments"  (June 2017)	<ul style="list-style-type: none"> <li>Provides an interpretation of IAS 12 to provide clarification over the accounting treatment to be applied for uncertainties in income taxes in scope of IAS 12.</li> <li>Introduces a two-step model for recognition and measurement of uncertain tax treatments based on whether it is probable a taxation authority would accept a particular tax treatment.</li> </ul>	Modified retrospective adoption from 1 April 2019	No impact expected

1. Endorsed by the EU

## **NOMURA BANK INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **s) Changes in accounting policies and disclosures**

The following standards, amendments to standards and interpretation relevant to the Bank's operations were adopted during the year. Except where otherwise stated, these standards, amendments to standards and interpretations did not have a material impact on the Bank's financial statements.

##### **i. IFRS 9 Financial Instruments**

IFRS 9, Financial Instruments, which replaced IAS 39, Financial Instruments: Recognition and Measurement, has been applied effective from 1 April 2018, including the early adoption of 'Prepayment features with negative compensation (Amendments to IFRS 9)'. Note that the Bank had early adopted the option in IFRS 9 'Financial Instruments: Classification and Measurement' to recognise changes in own credit on financial liabilities designated at fair value through profit and loss in other comprehensive income from 1 April 2016.

IFRS 9 does not require the restatement of comparative-period financial statements for the initial application of the classification and measurement requirements of IFRS 9, but requires additional disclosures on transition to IFRS 9 as required under IFRS 7, Financial Instruments: Disclosures. As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Consequently, the comparative information for prior periods is reported under IAS 39 and not comparable to the information presented for the current period. Any adjustments to the carrying amount of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and reserves as of 1 April 2018.

##### **ii. IFRS 15 Revenue from Contracts with Customers**

IFRS 15, Revenue from Contracts with Customers, which replaces all existing revenue requirements and related interpretations has been applied effective from 1 April 2018. IFRS 15 redefined the principles for recognising revenue and is applicable to all contracts with customers other than contracts in the scope of other standards (e.g., interest and fee income integral to financial instruments which would be in the scope of IFRS 9 and lease income).

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 2. INTEREST INCOME AND EXPENSE

	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
<b>Interest income calculated using the effective interest method</b>		
Interest on loans	4,578	19,080
Interest on reverse repurchase transactions	-	68,297
<b>Other interest and similar income</b>		
Interest on reverse repurchase transactions	70,214	-
	<u>74,792</u>	<u>87,377</u>
<b>Interest expense calculated using the effective interest method</b>		
Interest to banks and customers	47	42
Interest on funds borrowed	2,059	1,365
Interest on repo transactions	-	20,908
<b>Other interest and similar expense</b>		
Interest on repo transactions	13,208	-
	<u>15,314</u>	<u>22,315</u>

#### 3. FEE INCOME

	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
Facilitation fees	49,110	45,320
Other fee income	7,445	3,737
	<u>56,555</u>	<u>49,057</u>

Fee expenses related to commitment, guarantee and other fees of \$4,364,863 (2018: \$6,057,227).

#### 4. DEALING PROFITS / (LOSSES)

	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
Financial instruments held for trading	137,405	(228,633)
Financial instruments measured at fair value through profit and loss	(217,845)	153,313
	<u>(80,440)</u>	<u>(75,320)</u>

Substantially all of the Bank's profit before taxation and gross and net assets are driven from one business segment involving financing activities. The majority of the notes are issued to European institutions. Certain receivables and derivatives are transacted with the Nomura Group. Consequently, a significant portion of the revenues are derived from within the Nomura Group.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 5. ADMINISTRATIVE EXPENSES

	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
Wages, salaries and other social security costs	895	867
Audit of the financial statements	450	501
Audit related assurance services	145	178
Support service charges	10,684	11,356
	<u>12,174</u>	<u>12,902</u>

The Bank utilises the services of a number of Executive and Non-Executive Directors. The Bank employs its own staff for certain administrative activities (the number of direct employees at the end of the current financial year totalled 3 (2018: 2)). In addition, the Bank uses the resources of NIP under a Service Level Agreement (SLA), for which a charge is paid.

In addition to the audit fees shown above, an amount of \$216,331 (2018: \$240,545) was borne by NHI and an amount of \$84,420 (2018: \$84,420) relating to CASS audit was borne by NIP.

#### 6. DIRECTORS' EMOLUMENTS

The aggregate emoluments paid to the Directors were \$320,789 (2018: \$504,996).

The highest paid Director received emoluments of \$120,614 (2018: \$193,414). As at 31 March 2019 the accrued pension totalled \$2,215 per annum (2018: \$5,393) and no contributions were made to the Group Personal Pension plan.

The number of Directors who exercised share options during the year was 2 (2018: 2).

The number of Directors entitled to receive shares under a long-term incentive plan during the year was nil (2018: 2).

The number of Directors accruing retirement benefits under money purchase pension schemes during the year was 2 (2018: nil).

The above amounts were borne by another Nomura group undertaking.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 7. TAXATION

##### Tax expense

	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
<u>Current tax</u>		
U.K. Corporation tax charge	3,621	3,774
Foreign tax charge	-	9
Adjustment in respect of prior years	(9)	43
Current tax charge	<u>3,612</u>	<u>3,826</u>
<u>Deferred tax</u>		
Origination and reversal of temporary differences	(17)	(92)
Effect of changes in tax rates	(17)	5
Adjustment in respect of prior years	201	(30)
Deferred tax charge/(credit)	<u>167</u>	<u>(117)</u>
<b>Tax charge in income statement</b>	<b><u>3,779</u></b>	<b><u>3,709</u></b>
<b>Tax charge/(credit) in other comprehensive income</b>	<b>7,401</b>	<b>(13,560)</b>

##### Tax reconciliation

The tax charged to the income statement differs from the tax charge that would apply if all profits had been charged at U.K. corporation tax rate as follows:

	<u>Year ended</u> <u>31 March 2019</u> \$'000	<u>Year ended</u> <u>31 March 2018</u> \$'000
Profit on ordinary activities before tax	<u>18,970</u>	<u>19,840</u>
U.K. Corporation tax charge at 19% (2018: 19%)	3,604	3,770
<u>Effects of</u>		
Expenses not deductible for tax purposes	-	1
Capital gain from group entities charged at a rate different to the U.K. corporation tax rate	-	11,247
Utilisation of unrecognised deferred tax assets	-	(11,247)
Recognition of previously unrecognised deferred tax assets	-	(89)
Effect of tax rate change	(17)	5
Foreign tax charge	-	9
Adjustment in respect of prior years	192	13
<b>Tax charge in income statement</b>	<b><u>3,779</u></b>	<b><u>3,709</u></b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 7. TAXATION (CONTINUED)

##### Movement of recognised deferred tax assets

	<u>Decelerated capital allowance</u> \$'000	<u>Deferred emoluments</u> \$'000	<u>Own credit – transitional adjustment</u> \$'000	<u>Own credit – unrealised loss</u> \$'000	<u>Total</u> \$'000
Asset as at 1 April 2018	108	9	609	11,591	12,317
Income statement	-	(3)	(164)	-	(167)
Other comprehensive income	-	-	(269)	(7,534)	(7,803)
<b>Asset as at 31 March 2019</b>	<b>108</b>	<b>6</b>	<b>176</b>	<b>4,057</b>	<b>4,347</b>
Asset as at 1 April 2017	-	-	-	-	-
Income statement	108	9	-	-	117
Other comprehensive income	-	-	609	11,591	12,200
<b>Asset as at 31 March 2018</b>	<b>108</b>	<b>9</b>	<b>609</b>	<b>11,591</b>	<b>12,317</b>

##### Unrecognised deferred tax assets

	<u>31 March 2019</u> \$'000	<u>31 March 2018</u> \$'000
Unused trade losses	66,616	66,616
<b>Total unrecognised deferred tax assets</b>	<b>66,616</b>	<b>66,616</b>

The U.K. government has reduced the corporation tax rate in recent years with the enacted rate at 17% from 1 April 2020. Deferred tax assets as at the balance sheet date are calculated by reference to the most appropriate rates based on forecast.

Under U.K. tax rules, tax losses can be carried forward indefinitely. The amount of current year taxable profits that can be relieved by unused tax losses incurred by 31 March 2015 is restricted to 25% of such profits. The utilisation of unused tax losses incurred on or after 1 April 2015 against current year taxable profits is restricted to 50% of such profits subject to an annual £5 million allowance. Trade losses incurred on or after 1 April 2017 and carried forward to subsequent years can be surrendered as group relief subject to the 50% restriction and the annual £5 million allowance.

The Bank has unused trade losses of \$391.8 million (2018: \$391.8 million). A deferred tax asset of \$66.6 million (2018: \$66.6 million) is not recognised in respect of these losses due to uncertainty surrounding the availability of future taxable profits.

## **NOMURA BANK INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)**

#### **8. RETIREMENT BENEFIT**

The Bank participates in a group scheme which is operated for the former employees of the Bank and certain of its fellow subsidiaries. The scheme is a defined benefit scheme, funded by the payment of contributions to a separately administered trust fund. The defined benefit plan administered by NIP is a plan that shares risks between entities under common control and is run on a basis that does not allow the individual company participating within the scheme to identify its share of the underlying assets and liabilities so that it is accounted for by the Bank as a defined contribution scheme. The contributions to the scheme are determined by a qualified actuary. A full actuarial valuation of the defined benefit pension scheme was undertaken at 31 March 2019 by qualified independent actuaries. The Trustee of the scheme is Premier Pensions Management Ltd., a qualified independent actuary.

The costs of the scheme are borne by NIP and full disclosure of the scheme is presented in NIP's financial statements.

At 31 March 2019 and 31 March 2018 the plan assets exceeded the value of the plan liabilities, i.e. there was a surplus. The amount that can be recovered through reduced contributions in the future is the present value of the liability expected to arise from future service by current and future scheme members less the present value of future employee contributions. The Bank does not recognise the pension surplus as an unconditional right to a refund does not exist. The right to a refund requires the approval of the third party plan trustees and as such is contingent upon factors beyond the Bank's control. To the extent the right is contingent, no asset is recognised.

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)**

**9. FINANCIAL INSTRUMENTS**

**Analysis of the Bank's financial assets and financial liabilities by IFRS 9 classification**

	<u>March 2019</u>			<u>Total</u>
	<u>Held for trading</u>	<u>Mandatorily at fair value through profit and loss</u>	<u>At amortised cost</u>	
	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>				
Loans and advances to banks	-	-	3,048	3,048
Derivative financial instruments	449,130	-	-	449,130
Loans and advances to affiliates	-	560,042	1,004,094	1,564,136
Securities purchased under agreements to resell	-	4,535,216	-	4,535,216
Loans and advances to others	-	65,618	2,997	68,615
Prepayments and accrued income	-	12,687	451	13,138
Other assets	-	-	828	828
Financial investments	-	17	-	17
<b>Total</b>	<b>449,130</b>	<b>5,173,580</b>	<b>1,011,418</b>	<b>6,634,128</b>

	<u>March 2019</u>			<u>Total</u>
	<u>Held for trading</u>	<u>Designated at fair value through profit and loss</u>	<u>At amortised cost</u>	
<b>Financial Liabilities</b>				
Customer accounts	-	-	(184)	(184)
Derivative financial instruments	(653,887)	-	-	(653,887)
Accruals and deferred income	-	(13,401)	(7,192)	(20,593)
Borrowings from affiliates	-	-	(761,682)	(761,682)
Borrowing from others	-	(38,370)	(3,375)	(41,745)
Securities sold under agreements to repurchase	-	(599,980)	-	(599,980)
Bonds and medium term notes	-	(4,321,854)	-	(4,321,854)
Other liabilities	-	-	(126)	(126)
<b>Total</b>	<b>(653,887)</b>	<b>(4,973,605)</b>	<b>(772,559)</b>	<b>(6,400,051)</b>

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)**

**9. FINANCIAL INSTRUMENTS (CONTINUED)**

**Analysis of the Bank's financial assets and financial liabilities by IAS 39 classification**

	<u>Available- for-sale investments</u>	<u>Held for trading</u>	<u>March 2018 Designated at fair value through profit and loss</u>	<u>At amortised cost</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>					
Loans and advances to banks	-	-	-	6,635	6,635
Derivative financial instruments	-	504,352	-	-	504,352
Loans and advances to affiliates	-	-	790,145	236,028	1,026,173
Securities purchased under agreements to resell	-	-	-	6,196,820	6,196,820
Loans and advances to others	-	-	79,694	799	80,493
Other assets	-	-	-	8,376	8,376
Available-for-sale financial investments	12	-	-	-	12
	<b>12</b>	<b>504,352</b>	<b>869,839</b>	<b>6,448,658</b>	<b>7,822,861</b>
<b>Financial Liabilities</b>					
Customer accounts	-	-	-	(200)	(200)
Derivative financial instruments	-	(1,107,756)	-	-	(1,107,756)
Borrowing from affiliates	-	-	-	(246,485)	(246,485)
Borrowing from others	-	-	(43,235)	-	(43,235)
Securities sold under agreements to repurchase	-	-	-	(1,450,000)	(1,450,000)
Bonds and medium term notes	-	-	(4,460,415)	-	(4,460,415)
Other liabilities	-	-	-	(740)	(740)
	<b>-</b>	<b>(1,107,756)</b>	<b>(4,503,650)</b>	<b>(1,697,425)</b>	<b>(7,308,831)</b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 10. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

The following table for the Bank provides a summary of financial assets that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition, together with the associated liabilities:

Transferred financial asset	Fair value of transferred assets	Carrying value of associated liabilities	Fair value of transferred assets	Carrying value of associated liabilities
	2019 \$'000	2019 \$'000	2018 \$'000	2018 \$'000
Relating to securities agreements to repurchase	696,537	(599,980)	2,950,910	(1,450,000)

Repurchase agreements

The Bank has a program to sell securities under agreements to repurchase (repos) and to purchase securities under agreements to resell (reverse repos). All securities purchased in the table above have been obtained from NIP through reverse repo transactions.

The following table for the Bank provides a summary of financial assets obtained from NIP through reverse repo transactions:

Collateral Received	Fair value of the collateral received	Carrying value of associated assets	Fair value of the collateral received	Carrying value of associated assets
	2019 \$'000	2019 \$'000	2018 \$'000	2018 \$'000
Relating to securities agreements to resell	5,425,781	4,535,216	8,733,419	6,196,820

The collateral received above has not been re-hypothecated and does not carry any rights of re-hypothecation.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange, or other financial assets. These transactions are conducted under terms based on the applicable repo master agreement. If the securities increase or decrease in value the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for the cash received as collateral. Generally, the counterparty's recourse is not limited to the transferred assets. The carrying value and the fair value of securities under agreements to repurchase are the same. Transactions whereby financial assets are transferred, but continue to be recognised in their entirety on the Bank's balance sheet include repurchase agreements and securities transferred to collateralize derivative transactions as well as other financial asset transfers. The transferred financial assets include assets received in reverse repurchase arrangements in which case the associated recognised liability represents the amount to be repaid to counterparties.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 11. BONDS AND MEDIUM-TERM NOTES

	<u>31 March 2019</u> \$'000	<u>31 March 2018</u> \$'000
Bonds and medium- term notes, by remaining maturity:		
- Less than 1 year	840,884	613,721
- Less than 5 years but greater than 1 year	480,716	994,833
- Greater than 5 years	3,000,254	2,851,861
	<u>4,321,854</u>	<u>4,460,415</u>

As of 31 March 2019, the fair value of the aggregate unpaid principal balance (which is contractually principally protected) of long-term borrowings for which the fair value option was elected was \$122,349,307 (2018: \$88,464,301) more than the principal balance of such long-term borrowings.

The impact of changes in own credit risk during the year included in other comprehensive income on financial liabilities designated at fair value through profit and loss account was an unrealised gain of \$44,316,723 (2018: loss of \$ 17,599,553) and realised loss of \$701,055 (2018: \$4,796,277), as well as a tax charge of \$7,400,642 (2018: tax credit of \$13,560,212) arising during the year. The cumulative valuation adjustment resulting from own credit, included in the fair values of bonds and medium notes in the statement of financial position, is a credit of \$23,862,977 at 31 March 2019 (2018: credit of \$68,179,698). The Bank calculates and applies an own credit adjustment based on movements in the credit spread of the Nomura Group.

#### Movement in bonds and medium term notes

The bank typically hedges the returns it is obliged to pay with derivatives and/or the underlying assets to obtain funding equivalent to unsecured long-term debt.

Structured notes are debt securities which contain embedded features that alter the return to the investor from simply receiving a fixed or floating rate of interest to a return that depends upon some other variable(s) such as an equity or equity index, commodity price, foreign exchange rate, credit rating of a third party or more complex interest rate calculation.

\$'000	<u>Balance as at</u> <u>31 March 2018</u>	<u>Issuance</u>	<u>Redemption</u>	<u>Others</u>	<u>Balance as at 31</u> <u>March 2019</u>
Bonds and medium term notes	4,460,415	1,769,503	(1,913,124)	5,060	4,321,854

  

\$'000	<u>Balance as at</u> <u>31 March 2017</u>	<u>Issuance</u>	<u>Redemption</u>	<u>Others</u>	<u>Balance as at 31</u> <u>March 2018</u>
Bonds and medium term notes	4,104,141	1,401,363	(1,074,414)	29,325	4,460,415

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 11. BONDS AND MEDIUM-TERM NOTES (CONTINUED)

<u>Bonds and medium-term notes</u>	<u>31 March 2019</u> \$'000	<u>31 March 2018</u> \$'000
Carrying amount	4,321,854	4,460,415
Amount the Bank is contractually obligated to pay to the holders of bonds at maturity	4,391,838	4,660,016
Difference between carrying amount and the amount the bank is contractually obligated to pay to the holders of bonds at maturity	69,984	199,601

#### 12. SHARE CAPITAL

<u>31 March 2019</u>	<u>Authorised Number</u> '000	<u>Allotted and fully paid Number</u> '000	<u>Consideration</u> \$'000
US Dollar Ordinary shares of \$1 each	255,000	255,000	255,000
<u>31 March 2018</u>	<u>Authorised Number</u> '000	<u>Allotted and fully paid Number</u> '000	<u>Consideration</u> \$'000
US Dollar Ordinary shares of \$1 each	555,000	555,000	555,000

#### Reconciliation of number of shares outstanding at the beginning and end of period

<u>2019</u>	<u>31 March 2018</u>	<u>Number '000 Cancelled during the year</u>	<u>31 March 2019</u>
US Dollar Ordinary shares of \$1 each	555,000	(300,000)	255,000
<u>2018</u>	<u>31 March 2017</u>	<u>Number '000 Cancelled during the year</u>	<u>31 March 2018</u>
US Dollar Ordinary shares of \$1 each	555,000	-	555,000

During the year, 300,000,000 shares of \$1 each were cancelled and the Bank repatriated \$300 million of share capital to its immediate parent, Nomura Europe Holdings plc ("NEHS").



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT

The Bank's activities involve both the assumption and transfer of certain risks which must be managed. The most important types of risk are market risk, credit risk, operational risk, model risk and liquidity risk.

The Capital Requirements Directive IV (CRD IV), including the Capital Requirements Regulation (CRR) – requires the Bank to publish both Pillar 3 and country by country reporting disclosures. This information has been made publically available on the below website:

<http://www.nomuraholdings.com/company/group/europe>

##### **The Role of Financial Instruments**

The Bank issues debt with returns linked to equity, credit instruments or other indices. The Bank actively manages the resultant risk on a fair value basis using a combination of derivative and non-derivative financial instruments with the express intention of eliminating significant market risk arising from such transactions.

The Bank also offers traditional banking products to facilitate customer business such as credit facilities, guarantees and letters of credit. In addition to debt issuances noted above, the Bank obtains financing from capital, bank and intercompany borrowings.

##### **Risk Management Structure**

The Directors are ultimately responsible for identifying and controlling risks through their overall risk management approach and approval of risk strategies and principles. Responsibility for risk reporting and control are undertaken by the following independent departments set up within the Bank or under service level agreements with affiliate companies.

##### **Departments**

###### *Finance department*

The Finance department monitors compliance with internally and externally set regulatory limits and guidelines. The annual process for budgeting entity level capital needs is part of the Internal Capital Adequacy Assessment Process ("ICAAP") exercise which takes place in conjunction with the budget related processes. The setting of all current and budgeted capital requirements relating to U.K.-regulated entities, including the Company, is coordinated and challenged by the Financial and Regulatory Control functions within EMEA Finance. The Financial and Regulatory Control functions are also responsible for monitoring compliance with capital usage limits to ensure capital adequacy targets are met.

###### *Treasury Function*

Treasury is part of Finance, reporting to the Chief Financial Officer (CFO), and operates purely as a cost-centre. Treasury is responsible for assessing and monitoring liquidity risks, and ensuring appropriate liquidity reserves are held to protect against modelled outflows in stress.

The Treasury funding team are responsible for maintaining a sufficient Liquidity Portfolio, held in the form of highly liquid, unencumbered securities and supporting the structured note issuance program.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### *Risk Management*

The Risk Management Division comprises various departments in charge of risk management established independently from Nomura's business units. The Risk Management Division is responsible for establishing and operating risk management processes, establishing and enforcing risk management policies and regulations, verifying the effectiveness of risk management methods, as well as reporting to regulatory bodies where required, and handling regulatory applications concerning risk management methods and other items as necessary. Risks at the Bank's level are mainly managed through sub-committees of the Board of NEHS, the Bank's immediate parent.

##### *Internal Audit*

The Nomura Group Internal Audit Department has responsibility to examine, evaluate and raise issues on the appropriateness and the effectiveness of the internal control of all business and operational activities.

The Global Head of Internal Audit has an independent reporting line to the Internal Controls Committee, the Chairman of the Nomura Holdings, Inc. Audit Committee and the Audit Mission Directors in Tokyo.

In EMEA, the Head of Internal Audit has an independent reporting line to the Chairman of the Audit Committee of NEHS. The EMEA Head of Internal Audit also reports to the Global Head of Internal Audit and locally to the Chief Executive Officer of EMEA.

Internal Audit adopts a risk-based audit approach. A risk assessment is formally carried out annually using a globally agreed methodology and, where necessary, this is updated throughout the year as a result of continuous monitoring, on completion of audits and in response to internal or external events or incidents.

The outcome of the Internal Audit risk assessment is used as a basis for determining the annual Audit Plan. Any regulatory or other required or expected audits are added to the Plan as well as any Management Requests or Special Projects initiated by Internal Audit, such as pre-implementation reviews, new business reviews or one-off assignments in response to significant changes in the regulatory or business environment. The annual Audit Plan is reviewed and approved by the NEHS Audit Committee.

Audit execution is also risk-based. Key controls are identified and a variety of techniques are used to evaluate the adequacy of the design and the effectiveness of the controls, including inquiry and observation, sample testing and, in some cases, substantive testing.

Internal Audit reports its findings and the agreed actions, target dates and responsible owners to the relevant Audit Committee(s), Senior Management and Line Management as appropriate.

The status of outstanding action plans is reviewed regularly and reported to Management periodically. Internal Audit also performs validation work for issues which Management represents as having been completed.

The Audit Committee, a sub-committee of the Board, has satisfied itself as to the adequacy and sufficiency of Internal Audit resources.

A copy of the Internal Audit Charter is available upon request.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Risk Measurement and Reporting Systems

###### a) Market Risk

Market risk is the risk of loss arising from fluctuations in values of financial assets and liabilities (including off-balance sheet items) due to fluctuations in market risk factors (interest rates, foreign exchange rates, prices of securities and others). The Bank uses the Nomura Group's Market Risk Management ("MRM") framework for managing market risk, with some specific criteria applied to the Bank where relevant.

Within the Nomura European Holdings Group, there is a formal process for the allocation and management of economic capital ("NCAT") which is facilitated through the capital allocation agenda discussed by the Capital Allocation Committee.

The Bank uses a variety of statistical risk measurement tools to assess and monitor market risk on an ongoing basis including, but not limited to, Value at Risk ("VaR"), Stressed VaR ("SVaR") and Incremental Risk Charge ("IRC"). The Risk Management Division calculates VaR and NCAT numbers daily for all businesses. These figures are included in weekly reporting to senior management.

The Bank transfers its risks to other Nomura Group companies using derivative products; therefore its market risk is immaterial. No additional VaR disclosures have been made.

###### i. Equity Price Risk and Issuer Credit Risk

The primary sources of equity price risk and issuer credit risk for the Bank arise from the issuance of debt with returns linked to equity, credit instruments or other indices.

The bank mitigates such risks through the purchase of direct hedges or by transferring such risks to other Nomura Group companies using derivative products.

As described in note 1(e)(ii) management designates such debt instruments, together with related non-derivative hedges, as fair value through profit and loss. Related derivative hedges are accounted for as Held for Trading items.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below shows an analysis of the risks on a notional basis for non-trading items designated at fair value and those that are held for trading:

<b><u>31 March 2019:</u></b>	<b><u>Equity Risk</u></b> <b><u>\$'000</u></b>	<b><u>Credit Risk</u></b> <b><u>\$'000</u></b>	<b><u>Total</u></b> <b><u>\$'000</u></b>
Bonds and Medium-term notes	(618,681)	(3,773,157)	(4,391,838)
Financial assets with embedded derivatives	560,042	-	560,042
Derivative Financial Instruments:			
- Fixed income and credit derivatives	-	3,773,157	3,773,157
- Equity derivatives	58,639	-	58,639
	-	-	-
<b><u>31 March 2018:</u></b>	<b><u>Equity Risk</u></b> <b><u>\$'000</u></b>	<b><u>Credit Risk</u></b> <b><u>\$'000</u></b>	<b><u>Total</u></b> <b><u>\$'000</u></b>
Bonds and Medium-term notes	(849,726)	(3,810,290)	(4,660,016)
Financial assets with embedded derivatives	789,311	-	789,311
Derivative Financial Instruments:			
- Fixed income and credit derivatives	-	3,810,290	3,810,290
- Equity derivatives	60,415	-	60,415
	-	-	-

#### ii. Currency Risk

During the course of the Bank's financing activities, there is often a need to swap surplus flows in one currency into another currency, achieved using currency swap transactions. This is undertaken in accordance with approved market risk limits.

#### iii. Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established stress test limits to constrain the interest rate risk taken by non-trading books. Positions are monitored on a regular basis and hedging strategies may be implemented to ensure that the risk is maintained within the established limits.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### b) Credit Risk

Credit risk is the risk of loss arising from an obligor's default, insolvency or administrative proceeding which results in the obligor's failure to meet its contractual obligations in accordance with agreed terms. This includes both on and off-balance sheet exposures. It is also the risk of loss arising through a credit valuation adjustment ("CVA") associated with deterioration in the creditworthiness of a counterparty. The Bank uses the Nomura Group's Credit Risk Management ("CRM") framework for managing credit risk, with some specific criteria applied to the Bank where relevant.

CRM operates as a credit risk control function within the Risk Management Division, reporting to the EMEA Chief Risk Officer ("CRO"). The process for managing credit risk at the Bank includes:

- Evaluation of likelihood that a counterparty defaults on its payments and obligations;
- Assignment of internal ratings to all active counterparties;
- Approval of extensions of credit and establishment of credit limits;
- Measurement, monitoring and management of Nomura's current and potential future credit exposures;
- Setting credit terms in legal documentation; and
- Use of appropriate credit risk mitigants including netting, collateral and hedging.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. Credit derivatives exposure is calculated taking into account the credit quality of the underlying issue and the counterparty. The Bank trades using market convention documentation and, where appropriate, credit enhancements will be added to the documentation.

The Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Counterparty exposure limits are set within the external Large Exposure limit requirements laid down by the Bank's regulator, the FCA and PRA.

The Bank enters into netting agreements with certain counterparties to mitigate its credit exposure. Amounts are only netted if there is a legal right to offset and the entity intends to settle on a net basis, or to realise an asset and settle the liability simultaneously. The impact of offsetting financial assets and financial liabilities which are subject to master netting agreements is not reflected in the Statement of Financial Position. At 31 March 2019 no transactions meet these criteria.

The Bank mitigates its exposure to NIP requiring that cash lent is collateralised with securities (reverse repurchase transactions). At 31 March 2019 the fair value of securities pledged to the Bank by NIP was \$5.4 billion. None of this collateral was repledged or retransferred at the reporting date. The collateral will mitigate any potential loss in the value of the corresponding financial asset in the event of a counterparty failing to perform its contractual commitment.

##### **Credit Risk Exposure**

Generally, the Bank's maximum exposure to credit risk at the balance sheet date approximates the financial instruments' carrying amount. However, the below discloses the maximum exposure to credit risk for financial instruments where their carrying amount differs to their maximum exposure to credit risk, without taking account of any collateral held or any other credit enhancements. Certain off balance sheet instruments which expose the Bank to a risk of loss due to default by the parties underlying these contracts are also disclosed.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Off Balance Sheet commitments

In the normal course of business, the Bank provides corporate counterparties with loan commitment facilities. The notional amount of undrawn commitments is held off balance sheet, until the point at which they become drawn. The fair value of the commitments and the drawn facility are carried at fair value on the Statement of Financial Position. In addition, the Bank provides certain financial guarantees to third parties over their exposure to Nomura group companies.

Credit enhancements such as loan commitment sub-participations are considered integral to the contractual terms of the underlying loan commitment, and as a result the credit enhancement would be taken into account in the determination of the ECL charge. There is no loan which is past due at the reporting date 31 March 2019 as well as 31 March 2018.

	<u>Gross Exposure</u>	<u>Of which: Subject to ECL Model*</u>	<u>Related ECL Provision: Stage 1</u>	<u>Gross Exposure</u>
	<u>31 March 2019</u>	<u>31 March 2019</u>	<u>31 March 2019</u>	<u>31 March 2018</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Loans and advances to banks	3,048	3,048	-	6,635
Derivative financial instruments	449,130	-	-	504,352
Loans and advances to affiliates	1,564,136	1,004,094	-	1,026,173
Securities purchased under agreements to resell	4,535,216	-	-	6,196,820
Loans and advances to others	68,615	2,997	-	80,493
Prepayments and accrued income	13,138	451	-	9,748
Other assets	828	828	-	8,376
Financial investments	17	-	-	-
Available-for-sale financial investments	-	-	-	12
<b>Total Balance Sheet exposure</b>	<b>6,634,128</b>	<b>1,011,418</b>	<b>-</b>	<b>7,832,609</b>
Off Balance Sheet commitments and financial guarantee contracts	1,781,902	114,577	(84)	1,336,604
<b>Total exposure to credit risk</b>	<b>8,416,030</b>	<b>1,125,995</b>	<b>(84)</b>	<b>9,169,213</b>

\* All exposure subject to EExposure subject to ECL model are all classified as Stage 1.

ECL provision of \$83,776 relates to change in credit risk during the year.

The Bank receives a combination of cash and securities collateral from NIP with respect to its net derivative exposure with NIP. At 31 March 2019, cash received amounted to \$171,120,833 (2018: \$99,658,412). Taking into account collateral and other credit enhancements, the Bank's residual credit risk is to NIP. However, the Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Maximum Exposure to Credit Risk by Credit Rating

The credit quality of assets and off balance sheet commitments which are subject to credit risk is summarised below. The credit ratings are determined by the Bank's internally determined public rating agency equivalents.

	<u>31 March 2019</u>	<u>31 March 2018</u>
	\$'000	\$'000
<b>Financial Assets</b>		
AA	1,879	4,083
A	6,606,150	7,821,386
BBB	22,636	4,041
Non-Investment Grade	2,829	2,622
Not Rated	634	477
<b>Total Balance Sheet exposure</b>	<b>6,634,128</b>	<b>7,832,609</b>
<b>Off Balance Sheet Commitments and financial guarantee contracts</b>		
AA	85,308	93,474
A	489,921	862,592
BBB	347,674	165,347
Non-Investment Grade	691,615	171,187
Not Rated	167,384	44,004
<b>Total Off Balance Sheet exposure</b>	<b>1,781,902</b>	<b>1,336,604</b>
<b>Total maximum exposure to credit risk by credit rating</b>	<b>8,416,030</b>	<b>9,169,213</b>

Within "not rated" are balances representing the pool of counterparties which individually do not generate material credit risk for the Bank.

Substantially all the financial assets with exposures rated A are collateralised using a mixture of securities collateral, or cash. In addition, the Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP. A significant proportion of the Bank's A exposure is with NIP. All credit risk arising on these positions is hedged with NIP; therefore there is no net impact on the profit and loss account of the Bank.

##### Concentrations of Credit Risk

Due to the Bank's approach to mitigating risk, it is not exposed to any significant concentration risk other than that from other Nomura Group companies.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### c) Liquidity Risk

The Bank's approach to liquidity risk management is founded on the 3 lines of defence principle, ensuring a clear ownership and strong connection between the business (1st line), Treasury (2nd line) and Internal Audit / governance committees (3rd line) both globally and locally. The Bank's primary Liquidity Risk Management objective is to ensure continuous liquidity across market cycles and periods of market and idiosyncratic stress, ensuring that all contractual and modelled funding requirements and unsecured debt obligations that fall due within Board-established survival horizons and risk appetite can be met without any reliance on sourcing additional unsecured funding or forced liquidation of assets.

The MCO (Maximum Cumulative Outflow model) is Nomura's primary tool to measure and monitor liquidity risk on a daily basis, defining the level of liquid assets required to meet contractual and contingent liquidity needs in the event of a stress. The MCO incorporates consistent assumptions at an entity, regional and global level, modelling stressed liquidity outflows over three scenarios of increasing severity, ranging from normal business conditions to a combination of both a market-wide and Nomura-specific liquidity stress.

NBI is a U.K. regulated entity is fully compliant with the U.K. PRA prescribed liquidity requirements.

##### **Contractual Maturity Table**

The table below shows the maturity profile of the Bank's assets. The analysis into maturity groupings is based on the remaining period to the contractual maturity date or, if earlier, the expected date the assets will be realised. Derivatives are disclosed at fair value on demand with the exception of gross settled derivatives, which are shown by contractual maturity remaining. Loans advances to others and financial assets with embedded derivatives are presented at fair value. All the others assets are presented at carrying value.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Contractual Maturity Table

<b>Financial Assets</b>	<b><u>On demand</u></b>	<b><u>Less than 30 days</u></b>	<b><u>31 days - 1 year</u></b>	<b><u>1-5 years</u></b>	<b><u>Later than 5 years</u></b>	<b><u>Total</u></b>
<b><u>2019</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>Financial assets</b>						
Loans and advances to banks	3,048	-	-	-	-	3,048
Derivative financial instruments	421,076	8,206	19,848	-	-	449,130
Loans and advances to affiliates	54,780	548,443	899,313	61,600	-	1,564,136
Securities purchased under agreements to resell	1,074,851	534,705	2,736,312	189,348	-	4,535,216
Loans and advances to others	3,032	-	-	1,951	63,632	68,615
Prepayments and accrued income	13,138	-	-	-	-	13,138
Other asset	828	-	-	-	-	828
Financial investments	-	-	-	-	17	17
Deferred tax asset	4,347	-	-	-	-	4,347
<b>Total assets</b>	<b>1,575,100</b>	<b>1,091,354</b>	<b>3,655,473</b>	<b>252,899</b>	<b>63,649</b>	<b>6,638,475</b>
<b><u>2018</u></b>						
Loans and advances to banks	6,635	-	-	-	-	6,635
Derivative financial instruments	499,852	2,327	2,173	-	-	504,352
Loans and advances to affiliates	60,670	396,475	502,105	66,923	-	1,026,173
Securities purchased under agreements to resell	1,143,694	376,680	4,112,139	564,307	-	6,196,820
Loans and advances to others	799	-	-	1,935	77,759	80,493
Prepayments and accrued income	9,748	-	-	-	-	9,748
Other asset	8,376	-	-	-	-	8,376
Available-for-sale financial investments	-	-	-	-	12	12
Deferred tax asset	12,317	-	-	-	-	12,317
<b>Total assets</b>	<b>1,742,091</b>	<b>775,482</b>	<b>4,616,417</b>	<b>633,165</b>	<b>77,771</b>	<b>7,844,926</b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Contractual Maturity Table (continued)

The table below shows the Bank's liabilities by remaining contractual maturity, taking into account early redemption features. Derivatives, other instruments containing embedded derivatives and borrowing from others are presented at their fair values. Derivatives are disclosed at fair value on demand with the exception of gross settled derivatives, which are shown by contractual maturity remaining. Financial liabilities designated at fair value are disclosed based on their earliest redemption date. Structured note issuances are presented at their undiscounted cash flows and remaining liabilities are presented at carrying value.

<b>Financial Liabilities</b>	<b><u>On demand</u></b>	<b><u>Less than 30 days</u></b>	<b><u>31 days - 1 year</u></b>	<b><u>1-5 years</u></b>	<b><u>Later than 5 years</u></b>	<b><u>Total</u></b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>2019</b>						
Customer accounts	184	-	-	-	-	184
Derivative financial instruments	475,843	5,571	150,613	21,860	-	653,887
Accruals and deferred income	20,593	-	-	-	-	20,593
Borrowing from affiliates	225,901	225,995	224,495	-	85,291	761,682
Borrowing from others	3,375	-	1,256	37,114	-	41,745
Securities sold under agreements to repurchase	-	-	175,000	424,980	-	599,980
Bonds and medium-term notes	-	321,933	470,133	640,404	2,959,369	4,391,839
Group Relief Payable	3,219	-	-	-	-	3,219
Other liabilities	126	-	-	-	-	126
<b>Total liabilities</b>	<b>729,241</b>	<b>553,499</b>	<b>1,021,497</b>	<b>1,124,358</b>	<b>3,044,660</b>	<b>6,473,255</b>
Other Commitments	114,577	376,815	-	680,676	195,833	1,367,901
Standby letters of credit issued	-	-	-	100,000	314,000	414,000
<b>2018</b>						
Customer accounts	200	-	-	-	-	200
Derivative financial instruments	1,102,672	2,877	2,207	-	-	1,107,756
Accruals and deferred income	25,931	-	-	-	-	25,931
Borrowing from affiliates	161,157	-	-	-	85,328	246,485
Borrowing from others	-	-	1,146	42,089	-	43,235
Securities sold under agreements to repurchase	-	-	885,693	564,307	-	1,450,000
Bonds and medium-term notes	-	445,923	221,629	907,259	3,085,205	4,660,016
Group Relief Payable	27,424	-	-	-	-	27,424
Other liabilities	740	-	-	-	-	740
<b>Total liabilities</b>	<b>1,318,124</b>	<b>448,800</b>	<b>1,110,675</b>	<b>1,513,655</b>	<b>3,170,533</b>	<b>7,561,787</b>
Other Commitments	184,439	125,000	-	554,013	84,152	947,604
Standby letters of credit issued	-	-	-	110,000	279,000	389,000

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2019 Within 12 months \$'000	2019 After 12 months \$'000	2019 Total \$'000	2018 Within 12 months \$'000	2018 After 12 months \$'000	2018 Total \$'000
<b>Financial assets</b>						
Loans and advances to banks	3,048	-	3,048	6,635	-	6,635
Derivative financial instruments	449,130	-	449,130	504,352	-	504,352
Loans and advances to affiliates	1,502,536	61,600	1,564,136	959,250	66,923	1,026,173
Securities purchased under agreements to resell	4,345,868	189,348	4,535,216	5,632,513	564,307	6,196,820
Loans and advances to others	3,032	65,583	68,615	799	79,694	80,493
Prepayments and accrued income	13,138	-	13,138	9,748	-	9,748
Other asset	828	-	828	8,376	-	8,376
Financial investments	-	17	17	-	-	-
Available-for-sale financial investments	-	-	-	-	12	12
Deferred tax asset	4,347	-	4,347	12,317	-	12,317
<b>Total</b>	<b>6,321,927</b>	<b>316,548</b>	<b>6,638,475</b>	<b>7,133,990</b>	<b>710,936</b>	<b>7,844,926</b>
<b>Financial liabilities</b>						
Customer accounts	184	-	184	200	-	200
Derivative financial instruments	632,027	21,860	653,887	1,107,756	-	1,107,756
Accruals and deferred income	20,593	-	20,593	25,931	-	25,931
Borrowing from affiliates	676,391	85,291	761,682	161,157	85,328	246,485
Borrowing from others	4,631	37,114	41,745	1,146	42,089	43,235
Securities sold under agreements to repurchase	175,000	424,980	599,980	885,693	564,307	1,450,000
Bonds and medium-term notes	840,884	3,480,970	4,321,854	613,721	3,846,694	4,460,415
Group Relief Payable	3,219	-	3,219	27,424	-	27,424
Other liabilities	126	-	126	740	-	740
<b>Total</b>	<b>2,353,055</b>	<b>4,050,215</b>	<b>6,403,270</b>	<b>2,823,768</b>	<b>4,538,418</b>	<b>7,362,186</b>
<b>Net</b>	<b>3,968,872</b>	<b>(3,733,667)</b>	<b>235,205</b>	<b>4,310,222</b>	<b>(3,827,482)</b>	<b>482,740</b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### d) Operational Risk

The Bank defines operational risk as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It excludes strategic risk (the risk of loss as a result of poor strategic business decisions), but includes the risk of breach of legal and regulatory requirements, and the risk of damage to Nomura's reputation if caused by an operational risk. The Bank uses the Nomura Group's Operational Risk Management ("ORM") framework for the management of the Bank's operational risk.

##### *The Three Lines of Defence*

Nomura Group adopts the industry standard "Three Lines of Defence" for the management of operational risk, comprising the following elements:

- 1) 1st Line of Defence: The business which owns and manages its risks
- 2) 2nd Line of Defence: The ORM function, which defines and co-ordinates Nomura Group's operational risk, framework and its implementation, provides challenge to the 1st Line of Defence
- 3) 3rd Line of Defence: Internal Audit, who provide independent assurance

The Nomura Group's ORM framework is set out below:

##### *Infrastructure of the framework*

- Policy framework: Sets standards for managing operational risk and details how to monitor adherence to these standards.
- Training and awareness: Action taken by ORM to improve business understanding of operational risk.

##### *Products and Services*

- Event Reporting: This process is used to identify and report any event which resulted in or had the potential to result in a loss or gain or other impact associated with inadequate or failed internal processes, people and systems, or from external events.
- Risk and Control Self-assessment ("RCSA"): This process is used to identify the inherent risks the business faces, the key controls associated with those risks and relevant actions to mitigate the residual risks. Global ORM are responsible for developing the RCSA process and supporting the business in its implementation.
- Key Risk Indicators ("KRI"): KRIs are the metrics used to monitor the business' exposure to operational risk and trigger appropriate responses as thresholds are breached.
- Scenario Analysis: This process is used to assess and quantify potential high impact, low likelihood operational risk events. During the process, actions may be identified to enhance the control environment which are then tracked via the Operational Risk Management framework.

##### *Outputs*

- Analysis and reporting: A key aspect of ORM's role is to analyse, report, and challenge operational risk information provided by business units, and work with business units to develop action plans to mitigate risks.
- Operational risk capital calculation: Calculate operational risk capital as required under Basel standards and local regulatory requirements.

## **NOMURA BANK INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)**

#### **13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **e) Model Risk**

Model Risk is the risk of financial loss, incorrect decision making, or damage to the firm's credibility arising from Model errors or incorrect or inappropriate Model application.

To effectively manage the Firm's Model Risk, Nomura has established a Model Risk Management Framework to govern the development, ownership, validation, approval, usage, ongoing monitoring, and periodic review of the Firm's Models. The framework is supported by a set of policies and procedures that articulate process requirements for the various elements of the model lifecycle, including monitoring of model risk with respect to the Firm's appetite.

New models and material changes to approved models must be independently validated prior to official use. Thresholds to assess the materiality of model changes are defined in Model Risk Management's procedures. During independent validation, validation teams analyze a number of factors to assess a model's suitability, identify model limitations, and quantify the associated model risk, which is ultimately mitigated through the imposition of approval conditions, such as usage conditions, model reserves and capital adjustments. Approved models are subject to Model Risk Management's annual re-approval process and ongoing performance monitoring to assess their continued suitability. Appropriately delegated Model Risk Management Committees provide oversight, challenge, governance, and ultimate approval of validated Models.

##### **f) Business Risk**

Business risk is the risk of failure of revenues to cover costs due to deterioration of the earnings environment or deterioration of the efficiency or effectiveness of Nomura's business operations. Business risk is managed by the senior management of the Bank, including the Board of Directors.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions have been applied in determining the fair values of financial instruments:

- a) The fair value of financial assets and liabilities at amortised cost due within 12 months are assumed to approximate to their carrying values.
- b) Financial assets classified as fair value through other comprehensive income are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated using a valuation model.
- c) Financial assets mandatorily at fair value through profit and loss, financial liabilities designated at fair value through profit and loss and derivatives are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated using a valuation model. Such models are based wherever possible on assumptions supported by observable market prices or rates. These valuation techniques are based on assumptions. As a result, the fair value calculated using these valuation techniques will change if the underlying assumptions change. The potential impact of using reasonably possible alternative assumptions to value these financial instruments has not been disclosed as, due to the Bank's transfer of risks to other Nomura Group companies, it is not deemed significant.

#### Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

- Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities accessible by the Bank at the measurement date.
- Level 2** Quoted prices in inactive markets or prices containing other inputs which are observable, either directly or indirectly. Valuation techniques using observable inputs reflect assumptions used by market participants in pricing financial instruments and are based on data obtained from independent market sources at the measurement date.
- Level 3** Unobservable inputs that are significant to the fair value measurement of the financial instrument. Valuation techniques using unobservable inputs reflect management's assumptions about the estimates used by other market participants in valuing similar financial instruments. These valuation techniques are developed based on the best available information at the measurement date.

The following tables presents information about the Bank's financial assets and financial liabilities measured at fair value within the fair value hierarchy, based on the transparency of inputs into the valuation techniques used by the Bank to determine such fair values. Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement of the financial instrument.

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)**

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Fair value hierarchy – Assets**

	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Total</u> \$'000
<b>2019</b>				
<b>Financial assets</b>				
Derivative financial instruments	-	357,028	92,102	449,130
Securities purchased under agreements to resell	-	4,535,216	-	4,535,216
Loans and advances to affiliates	-	560,042	-	560,042
Loans and advances to others	-	-	65,617	65,617
Prepayments and accrued income	-	12,687	-	12,687
Financial investments	-	17	-	17
	<b>-</b>	<b>5,464,990</b>	<b>157,719</b>	<b>5,622,709</b>
<b>2018</b>				
<b>Financial assets</b>				
Derivative financial instruments	-	239,558	264,794	504,352
Loans and advances to affiliates	-	790,145	-	790,145
Loans and advances to others	-	-	79,694	79,694
	<b>-</b>	<b>1,029,703</b>	<b>344,488</b>	<b>1,374,191</b>

**Fair value hierarchy – Liabilities**

	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Total</u> \$'000
<b>2019</b>				
<b>Financial liabilities</b>				
Derivative financial instruments	-	456,603	197,284	653,887
Accruals and deferred income	-	13,401	-	13,401
Bonds and medium-term notes	-	4,321,854	-	4,321,854
Securities sold under agreements to repurchase	-	599,980	-	599,980
Borrowings from others	-	38,370	-	38,370
	<b>-</b>	<b>5,430,208</b>	<b>197,284</b>	<b>5,627,492</b>
<b>2018</b>				
<b>Financial liabilities</b>				
Derivative financial instruments	-	557,988	549,768	1,107,756
Bonds and medium-term notes	-	4,460,415	-	4,460,415
Borrowings from others	-	43,235	-	43,235
	<b>-</b>	<b>5,061,638</b>	<b>549,768</b>	<b>5,611,406</b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

##### Valuation techniques by major class of financial instrument

The valuation techniques used by Nomura to estimate fair value for major classes of financial instruments, together with the significant inputs which determine classification in the fair value hierarchy, are as follows.

##### Bank and corporate debt securities and loans carried at fair value

The fair value of bank and corporate debt securities and loans carried at fair value either as trading assets or through election of the fair value option is primarily determined using DCF valuation techniques but also using broker or dealer quotations and recent market transactions of identical or similar debt securities, if available. Consideration is given to the nature of the broker and dealer quotations, namely whether these are indicative or executable, the number of available quotations and how these quotations compare to any available recent market activity or alternative pricing sources. The significant valuation inputs used for DCF valuations are yield curves, asset swap spreads, recovery rates and credit spreads of the issuer. Bank and corporate debt securities are generally classified in Level 2 of the fair value hierarchy because these valuation inputs are usually observable or market-corroborated. Certain bank and corporate debt securities will be classified in Level 3 because they are traded infrequently and there is insufficient information from comparable securities to classify them in Level 2, or credit spreads or recovery rates of the issuer used in DCF valuations are unobservable.

##### Derivatives

Nomura enters into both exchange-traded and OTC equity, interest rate, credit and foreign exchange derivative transactions. Where these derivatives are traded in active markets and the exchange price is representative of fair value, the fair value of exchange-traded derivatives is determined using an unadjusted exchange price and classified in Level 1 of the fair value hierarchy. The fair value of exchange-traded equity derivatives which are traded in inactive markets or where the exchange price is not representative of fair value is determined using a model price and are classified in Level 2. The fair value of OTC equity derivatives is determined through option models such as Black-Scholes and Monte Carlo simulation. The significant valuation inputs used include equity prices, dividend yields, volatilities correlations, interest rates, credit spreads, recovery rates and foreign exchange rates. Valuation adjustments are also made to model valuations in order to reflect counterparty credit risk on derivative assets and Nomura's own creditworthiness on derivative liabilities. OTC derivatives are generally classified in Level 2 because all significant valuation inputs and adjustments are observable or market-corroborated. Certain less liquid vanilla or more complex equity derivatives are classified in Level 3 where dividend yield, interest rate, credit spread, recovery rate, volatility or correlation valuation inputs are significant and unobservable.

Nomura includes valuation adjustments in its estimation of fair value of certain OTC derivatives relating to funding costs associated with these transactions to be consistent with how market participants in the principal market for these derivatives would determine fair value.

##### Bonds and medium-term notes (“Structured notes”)

Structured notes are debt securities issued by Nomura which contain embedded features that alter the return to the investor from simply receiving a fixed or floating rate of interest to a return that depends upon some other variables, such as an equity or equity index, commodity price, foreign exchange rate, credit rating of a third party or a more complex interest rate (i.e., an embedded derivative).



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

##### Valuation techniques by major class of financial instrument (Continued)

The fair value of structured notes is determined using a quoted price in an active market for the identical liability if available, and where not available, using a mixture of valuation techniques that use the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities, similar liabilities when traded as assets, or an internal model which combines DCF valuation techniques and option pricing models, depending on the nature of the embedded features within the structured note. Where an internal model is used, Nomura estimates the fair value of both the underlying debt instrument and the embedded derivative components. The significant valuation inputs used to estimate the fair value of the debt instrument component include yield curves, prepayment rates, default probabilities and loss severities. The significant valuation inputs used to estimate the fair value of the embedded derivative component are the same as those used for the relevant type of freestanding OTC derivative discussed above. A valuation adjustment is also made to the entire structured note in order to reflect Nomura's own creditworthiness. This adjustment is determined based on recent observable secondary market transactions and executable broker quotes involving Nomura debt instruments and is therefore typically treated as a Level 2 valuation input. Structured notes are generally classified in Level 2 of the fair value hierarchy as all significant valuation inputs and adjustments are observable.

##### Valuation processes

In order to ensure the appropriateness of any fair value measurement of a financial instrument used within these financial statements including those classified as Level 3 within the fair value hierarchy, the Bank operates a governance framework which mandates determination or validation of a fair value measurement by control and support functions independent of the businesses assuming the risk of the financial instrument. Such functions within Nomura Group with direct responsibility for either defining, implementing or maintaining valuation policies and procedures are as follows:

- The Product Control Valuations Group (“PCVG”) within Nomura’s Finance Department has primary responsibility for determining and implementing valuation policies and procedures in connection with determination of fair value measurements. In particular, this group will ensure that valuation policies are documented for each type of financial instrument. While it is the responsibility of our businesses to price our financial instruments, the PCVG are responsible for independently verifying or validating these prices. In the event of a difference in opinion or where the estimate of fair value requires judgement, the valuation used within these financial statements is made by senior managers independent of the businesses. This group reports to the Global Head of Product Control and ultimately to the Chief Financial Officer (“CFO”) of Nomura Group;
- The Accounting Policy Group (“APG”) within Nomura’s Finance Department defines the Group’s accounting policies and procedures, including those associated with determination of fair value. This group reports to the Global Head of Accounting Policy and ultimately to the CFO of Nomura Group; and
- The Global Model Validation Group (“MVG”) within Nomura’s Risk Management Department validates the appropriateness and consistency of pricing models used to determine fair value measurements independently of those who design and build the models. The group reports to the Global Head of Market and Quantitative Risk of Nomura Group.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

##### *Sensitivity of fair value to changes in unobservable inputs*

Level 3 financial instruments are often hedged with instruments within Level 1 or Level 2 of the fair value hierarchy and the gains or losses do not reflect the offsetting gains or losses for these hedging instruments. Additionally, due to these hedging arrangements no effect of reasonably possible alternative assumptions has been disclosed as a change in any assumption would cause a similar offsetting effect to the hedging instruments' fair value. Level 3 instruments are also measured using both observable and unobservable inputs. Fair value changes presented below, therefore, reflect realised and unrealised gains and losses resulting from movements in both observable and unobservable parameters.

##### *Movements in Level 3 financial instruments*

Level 3 financial assets and financial liabilities include instruments whose valuations are significantly dependent on parameters which are unobservable in the market. Financial instruments are categorised in accordance with their lowest level significant input. As a result, a derivative valued using a combination of Level 1, Level 2 and Level 3 parameters would be classified in Level 3 in its entirety, if its value is significantly affected by at least one significant unobservable parameter.

These financial instruments are often hedged with instruments within Level 1 or Level 2 of the fair value hierarchy and the gains or losses below do not reflect the offsetting gains or losses for these hedging instruments. Additionally, due to these hedging arrangements no effect of reasonably possible alternative assumptions has been disclosed as a change in any assumption would cause a similar offsetting effect to the hedging instruments' fair value. Level 3 instruments are also measured using both observable and unobservable inputs. Fair value changes presented below, therefore, reflect realised and unrealised gains and losses resulting from movements in both observable and unobservable parameters.

The following table presents information about financial assets and liabilities measured at fair value on a recurring basis for which the Bank has utilised Level 3 inputs to determine fair value.

	<u>At 1 April</u> <u>2018</u>	<u>Total</u> <u>gains/</u> <u>(losses) in</u> <u>P&amp;L</u>	<u>Net</u> <u>cash</u> <u>(in)/out</u>	<u>Settle-</u> <u>ments</u>	<u>Net</u> <u>transfers</u> <u>out of</u> <u>level 3</u>	<u>At</u> <u>31 March</u> <u>2019</u>	<u>Unrealised</u> <u>Total gains/</u> <u>(losses) in</u> <u>P&amp;L</u>
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>2019</b>							
<b>Financial assets</b>							
Derivative financial instruments	264,794	16,448	-	(138,444)	(50,696)	92,102	8,465
Loans and advances to others	79,694	(14,077)	-	-	-	65,617	(14,077)
	<b>344,488</b>	<b>2,371</b>	<b>-</b>	<b>(138,444)</b>	<b>(50,696)</b>	<b>157,719</b>	<b>(5,612)</b>
<b>2018</b>							
<b>Financial assets</b>							
Derivative financial instruments	154,353	137,998	-	(22,266)	(5,291)	264,794	114,033
Loans and advances to others	84,610	(6,851)	347	-	1,588	79,694	(6,851)
	<b>238,963</b>	<b>131,147</b>	<b>347</b>	<b>(22,266)</b>	<b>(3,703)</b>	<b>344,488</b>	<b>107,182</b>

During the year, financial assets were transferred in/out of Level 3, as certain parameters became unobservable/observable or more significant. Financial assets amounting to \$975,170 were transferred into level 3 during the year.

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)**

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

<b>31 March 2019:</b>	<b>At 1 April 2018</b>	<b>Total gains/ (losses) in P&amp;L</b>	<b>Net cash (in)/out</b>	<b>Settle- ments</b>	<b>Net transfers out of level 3</b>	<b>At 31 March 2019</b>	<b>Unrealised Total gains (losses) in P&amp;L</b>
	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>
<b>2019</b>							
<b>Financial liabilities</b>							
Derivative financial instruments	549,768	(28,452)	-	(311,071)	(12,961)	197,284	11,357
	<b>549,768</b>	<b>(28,452)</b>	<b>-</b>	<b>(311,071)</b>	<b>(12,961)</b>	<b>197,284</b>	<b>11,357</b>
<b>2018</b>							
<b>Financial liabilities</b>							
Derivative financial instruments	407,428	147,206	-	(13,396)	8,530	549,768	153,518
	<b>407,428</b>	<b>147,206</b>	<b>-</b>	<b>(13,396)</b>	<b>8,530</b>	<b>549,768</b>	<b>153,518</b>

Total gains and losses on financial liabilities included in the above table are included in 'Dealing losses' in the profit and loss account.

The Bank assumes that all transfers of financial instruments from one level to another level within the fair value hierarchy occur at the beginning of the relevant quarter in which the transfer takes place.

During the year, and no financial liabilities were transferred into level 3.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

##### *Level 3 quantitative disclosures on significant unobservable inputs*

The following table presents quantitative information about the significant unobservable inputs and assumptions used by the Bank for Level 3 financial instruments as of 31 March 2019 and 31 March 2018:

<b>Class of financial instruments</b>	<b>Fair value \$'000</b>	<b>Valuation techniques</b>	<b>Significant Unobservable inputs</b>	<b>Range</b>
<b>2019</b>				
Derivative financial instruments				
- Assets	92,102	DCF/Option Models	Dividend Yield	2.1% - 7.8%
- Liabilities	(197,284)		Volatilities	9.2% - 23.6%
			Correlations	(0.27) – 0.90
Loans and advances to others	65,617		No significant unobservable inputs <sup>1</sup>	
<b>2018</b>				
Derivative financial instruments				
- Assets	264,794	DCF/Option Models	Dividend Yield	1% - 5.2%
- Liabilities	(549,768)		Volatilities	5.1% - 33.2%
			Correlations	(0.40) – 0.64
Loans and advances to others	79,694		No significant unobservable inputs <sup>1</sup>	

<sup>1</sup>The position is valued with a significant adjustment to theoretical value to reflect likely exit level. Whilst this is significant to the valuation no individual input is seen as significant and unobservable.

##### **Estimated fair value of financial instruments not carried at fair value**

Certain financial instruments are not carried at fair value on a recurring basis in the Statement of Financial Position since they are neither held for trading purposes nor are elected for the fair value option. These are typically carried at contractual amounts due or amortised cost.

The carrying value of the majority of the financial instruments detailed below will approximate fair value since they are short-term in nature and contain minimal credit risk. These financial instruments include financial assets reported within Loans, Debtors, Cash at bank and in hand, Borrowings from fellow subsidiary undertakings, Cash collateral and Other liabilities.

Cash at bank and in hand, Other debtors, Borrowings from fellow subsidiary undertakings and Cash Collateral and Other liabilities, in the Statement of Financial Position would generally be classified in either Level 1 or Level 2 within the fair value hierarchy.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2019 (CONTINUED)

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables present carrying values, fair values and classification within the fair value hierarchy for certain classes of financial instruments not carried fully or partially at fair value as of March 31, 2019 and 2018.

	<u>Carrying amount</u> \$'000	<u>Fair value</u> \$'000	<u>Fair value by level</u>		
			<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000
<b>2019</b>					
<b>Financial Assets:</b>					
Loans and advances to banks	3,048	3,048	-	3,048	-
Loans and advances to affiliates	1,004,094	1,004,094	-	1,004,094	-
Loans and advances to others	2,997	2,997	-	2,997	-
Prepayments and accrued income	451	451	-	451	-
Other assets	828	828	-	828	-
	<b>1,011,418</b>	<b>1,011,418</b>	-	<b>1,011,418</b>	-
<b>Financial Liabilities:</b>					
Customer accounts	(184)	(184)	-	(184)	-
Accruals and deferred income	(7,192)	(7,192)	-	(7,192)	-
Borrowing from affiliates	(761,682)	(761,682)	-	(761,682)	-
Borrowing from others	(3,375)	(3,375)	-	(3,375)	-
Other liabilities	(126)	(126)	-	(126)	-
	<b>(772,559)</b>	<b>(772,559)</b>	-	<b>(772,559)</b>	-
<b>2018</b>					
<b>Financial Assets:</b>					
Loans and advances to banks	6,635	6,635	6,635	-	-
Loans and advances to affiliates	236,028	236,028	-	236,028	-
Loans and advances to others	799	799	-	799	-
Securities purchased under agreements to resell	6,196,820	6,196,820	-	6,196,820	-
Other assets	8,376	8,376	-	8,376	-
	<b>6,448,658</b>	<b>6,448,658</b>	<b>6,635</b>	<b>6,442,023</b>	-
<b>Financial Liabilities:</b>					
Customer accounts	(200)	(200)	-	(200)	-
Borrowing from affiliates	(246,485)	(246,485)	-	(246,485)	-
Securities sold under agreements to repurchase	(1,450,000)	(1,450,000)	-	(1,450,000)	-
Other liabilities	(740)	(740)	-	(740)	-
	<b>(1,697,425)</b>	<b>(1,697,425)</b>	-	<b>(1,697,425)</b>	-

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 15. OFFSETTING DISCLOSURES

The Bank does not perform any balance sheet netting. The tables presented below provide a summary of financial assets and liabilities subject to enforceable master netting arrangements and similar agreements.

The Bank has entered into various collateral arrangements with its derivative counterparties or other transactions whereby non cash collateral may be posted. These transactions are conducted under terms based on the applicable derivative agreement (e.g. ISDA Collateral Guidelines). The Bank has determined that it retains substantially all the risks and rewards of the posted non-cash collateral, which include credit risk and market risk. The non-cash collateral is not derecognised. Generally, the counterparty's recourse is not limited to the transferred assets.

	<u>Securities purchased under agreements to resell \$'000s</u>	<u>Loans and advances to affiliates \$'000s</u>	<u>Derivative Assets \$'000s</u>	<u>Securities sold under agreements to repurchase \$'000s</u>	<u>Derivative Liabilities \$'000s</u>
<b>2019</b>					
Total gross balance <sup>(1)</sup>	4,535,216	560,042	449,130	(599,980)	(653,887)
Less: Additional amounts not offset in the bank balance sheet <sup>(2)</sup>	-	-	(449,130)	-	449,130
Financial instruments and non-cash collateral	(4,535,216)	(560,042)	-	599,980	-
Cash collateral <sup>(3)</sup>	-	-	-	-	57,777
<b>Net amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(146,980)</b>
<b>2018</b>					
Total gross balance <sup>(1)</sup>	6,196,820	789,311	504,352	(1,450,000)	(1,107,756)
Less: Additional amounts not offset in the bank balance sheet <sup>(2)</sup>	-	-	(504,352)	-	504,352
Financial instruments and non-cash collateral	(6,196,820)	(789,311)	-	1,450,000	-
Cash collateral <sup>(3)</sup>	-	-	-	-	61,469
<b>Net amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(541,935)</b>

(1) Includes all recognised balances irrespective of whether they are transacted under legally enforceable master netting agreements. Amounts include transactions carried at fair value through election of the fair value option and amounts carried at amortized cost.

(2) Represents amounts which are not permitted to be offset on the face of the balance sheet but which provide the Bank with the right of offset in the event of counterparty default.

(3) Cash collateral payable of \$225,900,833 received from NIP is not utilised due to nil derivative asset exposure after counterparty netting.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 16. CAPITAL MANAGEMENT POLICY

##### U.K. Capital Management

The primary objectives of the Bank's capital management policies are to ensure that the Bank complies with externally imposed capital requirements and that the Bank is able to withstand losses due to extreme market movements. To achieve these goals, sufficient capital is maintained to support the Bank's business. The Bank looks to mitigate risk through the use of derivative arrangements with other Nomura Europe group companies.

The Bank reviews the appropriate level of capital sufficiency, with senior management responsible for implementing and enforcing capital policies. The determination of asset size and level of capital take into consideration regulatory requirements, economic risks inherent in the business and maintenance of a debt rating appropriate to a global financial institution. The allocation of available capital resource across the business is then based upon factors such as return on capital and regulatory requirements.

The Bank is subject to and has complied with the regulatory requirements imposed by the PRA under the Capital Requirements Directive IV ("CRD IV") framework.

No changes were made in the objectives, policies or processes for managing capital in the year.

##### U.K. Regulatory Capital

Regulatory guidelines developed by the Basel Committee and European Union Directives, as implemented by the FCA and PRA for supervisory purposes define two 'Tiers' of capital resources. Tier 1 capital is the highest tier and mainly consists of ordinary share capital and audited retained earnings. The Bank does not currently maintain Tier 2 capital. Capital can be used to support non-trading activity and all market and counterparty risks

	<u>31 March 2019</u>	<u>31 March 2018</u>
	\$'000s	\$'000s
Tier 1 capital	300,392	587,107
<b>Total capital resources</b>	<b>300,392</b>	<b>587,107</b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 17. CONTINGENT LIABILITIES AND COMMITMENTS

##### Contingent Liabilities

The Bank provides certain financial guarantees to third parties over their exposure to Nomura Group companies. At 31 March 2019 the exposure on these financial guarantee contracts amounted to \$114,577,466 (2018: \$184,439,319).

##### Commitments

The Bank had commitments as at 31 March 2019 amounting to \$1,667,323,688 (2018: \$1,151,832,572) in respect of undrawn note issuance facilities and loan commitments. The loan commitments are sub-participated to NIP on commitment date.

##### Operating Lease Commitments

The Bank's obligations from operating leases relate to long-term leases of real estate and motor vehicle.

The Bank was committed to making the following payments in respect of operating leases:

	<u>2019</u> <u>Buildings</u> \$'000	<u>2019</u> <u>Other</u> \$'000
Within one year	115	39
Greater than one year but less than five years	210	3
	<u>325</u>	<u>42</u>



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 18. RELATED PARTY TRANSACTIONS

The Bank enters into various transactions with other companies under common control within the Nomura Group which are at an arm's length basis. Included within the Bank's statement of financial position are the following transactions with Nomura group entities:

	<u>31 March 2019</u> \$'000	<u>31 March 2018</u> \$'000
<b>Assets:</b>		
Derivative financial instruments	429,495	502,785
Loans and advances to affiliates	1,564,136	1,026,173
Securities purchased under agreements to resell	4,535,216	6,196,820
Prepayments and accrued income	12,959	9,739
Other assets	404	7,911
	<u>6,542,210</u>	<u>7,743,428</u>
<b>Liabilities:</b>		
Derivative financial instruments	480,218	911,232
Accruals and deferred income	6,350	5,582
Borrowings from affiliates	761,682	246,485
	<u>1,248,250</u>	<u>1,163,299</u>

Additionally, the Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP. The Bank's obligation to pay the U.K. Bank Levy in both the current year and prior year has been settled by NIP, who are responsible for reporting and paying the bank levy on behalf of the Nomura U.K. tax group.

For the years ended 31 March 2019 and 31 March 2018, there were no impairment losses on any of the above disclosed related party receivables. The risk on the Bank's transactions is predominantly retained by other Nomura Group companies. Therefore many "back-to-back" transactions exist between the Bank and other Nomura Group companies.

Included within the Bank's statement of comprehensive income are the following transactions with Nomura group entities:

	<u>31 March 2019</u> \$'000	<u>31 March 2018</u> \$'000
Interest income	74,569	87,172
Interest expense	(384)	(1,448)
Fee income	49,229	45,502
Fee expense	(3,954)	(4,160)
Administrative expenses towards SLA & Technology charges	(9,429)	(9,429)
	<u>110,031</u>	<u>117,637</u>

In addition to the above, the Bank has significant dependencies with other Nomura Group companies. Certain Corporate services, including the use of IT systems, are provided by NIP through SLA. The premises where the Bank is registered and operates are leased by Nomura Properties plc.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 19. ULTIMATE PARENT COMPANY

The Bank's ultimate parent undertaking and controlling party, and the parent that heads the largest group of undertakings for which consolidated financial statements are prepared, is Nomura Holdings, Inc., which is incorporated in Japan. Copies of the financial statements of Nomura Holdings, Inc. can be obtained from 9-1, Nihonbashi 1-Chome, Chuo-ku. Tokyo 103-8645, Japan.

The parent that heads the smallest group of undertakings is Nomura Europe Holdings plc, a company registered at 1 Angel Lane, London, EC4R 3AB, United Kingdom.

#### 20. TRANSITIONAL IMPACT UPON ADOPTION OF IFRS 9

The following table sets out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's Expected Credit Losses. A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 April 2018 is, as follows:

<u>\$'000s</u>	<u>Original IAS 39 classification</u>	<u>New IFRS-9 classification</u>	<u>As at 31 Mar 2018 IAS 39 carrying amount</u>	<u>IFRS 9 classification</u>	<u>IFRS 9 measurement</u>	<u>As at 1 April 2018 New IFRS 9 carrying amount</u>
<b>Assets</b>						
Loans and advances to banks	AC <sup>1</sup> (L&R) <sup>2</sup>	AC	6,635	-	-	6,635
Derivative financial instruments	HFT <sup>3</sup>	HFT	504,352	-	-	504,352
Loans and advances to affiliates	FVPL <sup>4</sup>	FVPL (mandatorily)	790,145	-	-	790,145
Securities purchased under agreements to resell	AC (L&R)	AC (mandatorily)	236,028	-	-	236,028
Loans and advances to others	AC	FVPL (mandatorily)	6,196,820	2,274	-	6,199,094
Prepayments and accrued income	FVPL	FVPL (mandatorily)	79,694	-	-	79,694
Other assets	AC	AC	799	-	-	799
Financial investments	AC	FVPL (mandatorily)	9,748	-	-	9,748
Available-for-sale financial investments	AFS <sup>5</sup>	FVOCI <sup>6</sup>	8,376	-	-	8,376
Deferred tax assets			-	12	-	12
			12	(12)	-	-
<b>Total</b>			<b>7,844,926</b>	<b>2,274</b>	<b>-</b>	<b>7,847,200</b>

<sup>1</sup> AC: Amortised cost

<sup>2</sup> L&R: Loans and receivables

<sup>3</sup> HFT: Held for trading

<sup>4</sup> FVPL: Fair value through profit or loss

<sup>5</sup> AFS: Available-for-sale

<sup>6</sup> FVOCI: Fair value through other comprehensive income

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)**

**20. TRANSITIONAL IMPACT UPON ADOPTION OF IFRS 9 (CONTINUED)**

<u>\$'000s</u>	<u>Original IAS 39 classification</u>	<u>New IFRS-9 classification</u>	<u>As at 31 Mar 2018 IAS 39 carrying amount</u>	<u>IFRS 9 classification</u>	<u>IFRS 9 measurement</u>	<u>As at 1 April 2018 New IFRS 9 carrying amount</u>
<b>Liabilities</b>						
Customer accounts	AC	AC	200	-	-	200
Derivative financial instruments	HFT	HFT	1,107,756	-	-	1,107,756
Accruals and deferred income			25,931	-	-	25,931
Borrowings from affiliates	AC	AC	246,485	-	-	246,485
Borrowings from others	FVPL (designated)	FVPL (designated)	43,235	-	-	43,235
Securities sold under agreements to repurchase	AC (L&R)	FVPL (designated)	1,450,000	1,216	-	1,451,216
Bonds and medium-term notes	FVPL (designated)	FVPL (designated)	4,460,415	-	-	4,460,415
Group relief payable			27,424	-	-	27,424
Other liabilities	AC	AC	740	-	-	740
<b>Total</b>			<b>7,362,186</b>	<b>1,216</b>	<b>-</b>	<b>7,363,402</b>

- Certain Financial investments that were previously classified as Available-for-sale investments under IAS 39 to being mandatorily at fair value through profit or loss under IFRS 9 as these investments are managed on a fair value basis.
- Securities purchased under agreements to resell are reclassified from amortised cost under IAS 39 to mandatorily measured at FVPL under IFRS 9 as the underlying portfolios are managed on a fair value basis, the impact to retained earnings of measurement at FVPL was \$2,273,963
- Securities sold under agreements to repurchase are reclassified from amortised cost to designated measured at FVPL in order to minimise an accounting mismatch, the impact to retained earnings of measurement at FVPL was (\$1,215,713).

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019 (CONTINUED)

#### 20. TRANSITIONAL IMPACT UPON ADOPTION OF IFRS 9 (CONTINUED)

##### Impact on retained earnings

The Bank records an adjustment to its opening 1 April 2018 retained earnings, to reflect the application of the new requirements of IFRS 9 Classification and Measurement at the adoption date. There is no material impact on retained earnings for classification on adoption of IFRS 9 Impairment.

	<b>Retained earnings</b>
	<u>USD '000s</u>
<b>Closing balance under IAS 39 (31 March 2018)</b>	<b>32,541</b>
<i>Reclassification adjustments in relation to IFRS 9</i>	
Remeasurement impact of reclassifying assets held at amortised cost to financial assets mandatorily at fair value through profit or loss	2,274
Remeasurement impact of reclassifying liabilities held at amortised cost to financial liabilities designated at fair value through profit or loss	(1,216)
<b>Opening balance under IFRS 9 (1 April 2018)</b>	<b>33,599</b>
<b>Total change in retained earnings due to adopting IFRS 9</b>	<b>1,058</b>